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# BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS JAN. 31, 1959


## PRIVATE PENSION FUNDS

*A BUSINESS WEEK Special Report on these new financial giants, loaded with power and problems*


**Publications of**

**THE HEARST CORPORATION**

**and its subsidiaries**

**NEWSPAPERS:**

Albany Times-Union
Baltimore News-Post
Baltimore American
Boston Record
Boston American
Boston Advertiser
Detroit Times
Los Angeles Examiner
Los Angeles Herald & Express
Milwaukee Sentinel
New York Journal-American
New York Mirror
Pittsburgh Sun-Telegraph
San Antonio Light
San Francisco Call-Bulletin
San Francisco Examiner
Seattle Post-Intelligencer

**SUNDAY SUPPLEMENTS:**

The American Weekly
Puck: The Comic Weekly
Pictorial Review
Pictorial Living

**MAGAZINES:**

Good Housekeeping
House Beautiful
Harper's Bazaar
Cosmopolitan
Town & Country
American Druggist
Motor
Motor Boating
Sports Afield
Popular Mechanics
Science Digest
Bride & Home
New Medical Materia

# "*Nationals* save us $275,700 a year... return 64% annually on investment."

**—THE HEARST CORPORATION,** New York

"Due to the vast amount of accounting work entailed in the publication of newspapers and magazines, we require a high-speed, modern accounting system. National Accounting Machines meet this need.

"We purchased our first National 27 years ago. We have now invested $430,909 in Nationals. We estimate they save us about 64% annually on our investment.

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G. O. Markuson

G. O. MARKUSON,
Vice President & Treasurer The Hearst Corporation

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**THE NATIONAL CASH REGISTER COMPANY,** DAYTON 9, OHIO

1,039 OFFICES IN 121 COUNTRIES — 75 YEARS OF HELPING BUSINESS SAVE MONEY

*National*

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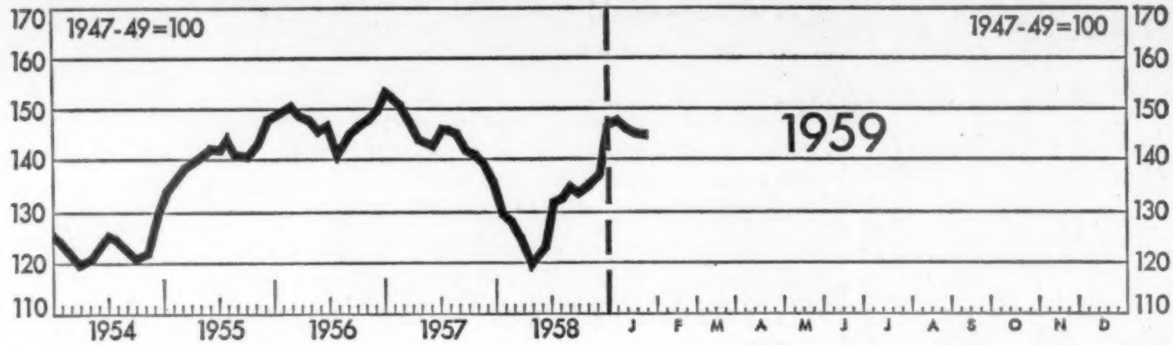
# FIGURES OF THE WEEK




| | 1946 Average | Year Ago | Month Ago | Week Ago | § Latest Week |
|---|---|---|---|---|---|
| **BUSINESS WEEK INDEX** (chart) . . . . . | **91.6** | **129.6** | **147.9** | **†145.5** | ***145.3** |
| **PRODUCTION** | | | | | |
| **Steel ingot** (thous. of tons) | 1,281 | 1,459 | 2,058 | †2,056 | **2,212** |
| **Automobiles and trucks** | 62,880 | 131,945 | 126,364 | †166,693 | **159,580** |
| **Engineering const. awards** (Eng. News-Rec. 4-wk. daily av. in thous.) | $17,083 | $43,458 | $63,019 | $60,147 | **$63,682** |
| **Electric power** (millions of kilowatt-hours) | 4,238 | 12,399 | 12,379 | 13,324 | **13,394** |
| **Crude oil and condensate** (daily av., thous. of bbls.) | 4,751 | 6,923 | 7,128 | 7,087 | **7,194** |
| **Bituminous coal** (daily av., thous. of tons) | 1,745 | 1,407 | 1,505 | †1,366 | **1,382** |
| **Paperboard** (tons) | 167,269 | 281,999 | 295,919 | 305,778 | **292,534** |
| **TRADE** | | | | | |
| **Carloadings: mfrs., miscellaneous and l.c.l.** (daily av., thous. of cars) | 82 | 55 | 55 | 53 | **57** |
| **Carloadings: all others** (daily av., thous. of cars) | 53 | 40 | 40 | 39 | **41** |
| **Department store sales index** (1947-49 = 100, not seasonally adjusted) | 90 | 110 | 304 | 121 | **116** |
| **Business failures** (Dun & Bradstreet, number) | 22 | 333 | 185 | 294 | **296** |
| **PRICES** | | | | | |
| **Spot commodities, daily index** (Moody's, Dec. 31, 1931 = 100) | 311.9 | 392.8 | 390.0 | 385.4 | **385.2** |
| **Industrial raw materials, daily index** (BLS, 1947-49 = 100) | ††73.2 | 82.8 | 89.2 | 89.2 | **88.4** |
| **Foodstuffs, daily index** (BLS, 1947-49 = 100) | ††75.4 | 87.6 | 80.8 | 79.4 | **79.5** |
| **Print cloth** (spot and nearby, yd.) | 17.5¢ | 17.8¢ | 18.2¢ | 18.2¢ | **18.2¢** |
| **Finished steel, index** (BLS, 1947-49 = 100) | ††76.4 | 181.7 | 186.9 | 187.0 | **187.0** |
| **Scrap steel composite** (Iron Age, ton) | $20.27 | $34.33 | $39.83 | $41.17 | **$42.50** |
| **Copper** (electrolytic, delivered price, E & MJ, lb.) | 14.045¢ | 24.885¢ | 29.000¢ | 29.020¢ | **29.060¢** |
| **Wheat** (No. 2, hard and dark hard winter, Kansas City, bu.) | $1.97 | $2.22 | $2.00 | $1.99 | **$2.02** |
| **Cotton, daily price** (middling, 1 in., 14 designated markets, lb.) | **30.56¢ | 34.77¢ | 34.34¢ | 34.28¢ | **34.32¢** |
| **Wool tops** (Boston, lb.) | $1.51 | $1.78 | $1.64 | $1.63 | **$1.63** |
| **FINANCE** | | | | | |
| **500 stocks composite, price index** (S&P's, 1941-43 = 10) | 17.08 | 41.63 | 54.96 | 55.82 | **55.74** |
| **Medium grade corporate bond yield** (Baa issues, Moody's) | 3.05% | 4.74% | 4.87% | 4.87% | **4.89%** |
| **Prime commercial paper, 4 to 6 months, N. Y. City** (prevailing rate) | ¾–1% | 3⅜% | 3⅜% | 3¼% | **3⅜%** |
| **BANKING (Millions of Dollars)** | | | | | |
| **Demand deposits adjusted,** reporting member banks | ††45,820 | 56,556 | 58,502 | 58,693 | **59,192** |
| **Total loans and investments,** reporting member banks | ††71,916 | 86,521 | 95,905 | 94,694 | **95,597** |
| **Commercial and agricultural loans,** reporting member banks | ††9,299 | 30,857 | 31,150 | †30,651 | **30,414** |
| **U. S. gov't guaranteed obligations held,** reporting member banks | ††49,879 | 25,861 | 31,886 | 31,266 | **32,290** |
| **Total federal reserve credit outstanding** | 23,888 | 24,949 | 28,899 | 27,708 | **27,368** |

## MONTHLY FIGURES OF THE WEEK

| | | 1946 Average | Year Ago | Month Ago | Latest Month |
|---|---|---|---|---|---|
| **Cost of living (U. S. Dept. of Labor BLS, 1947-49 = 100)** | **December** | 83.4 | 121.6 | 123.9 | **123.7** |
| **McGraw-Hill Indexes of New Orders (1950 = 100)** | | | | | |
| **New Orders for machinery, except electrical** (seasonally adjusted) | **December** | N.A. | 122 | 143 | **138** |
| **Construction & mining machinery** | **December** | N.A. | 131 | 151 | **161** |
| **Engines & turbines** | **December** | N.A. | 138 | 116 | **186** |
| **Pumps & compressors** | **December** | N.A. | 166 | 188 | **175** |
| **Metalworking machinery** | **December** | N.A. | 73 | 115 | **118** |
| **Other industrial machinery** | **December** | N.A. | 130 | 140 | **132** |
| **Office equipment** | **December** | N.A. | 143 | 156 | **175** |
| **New contracts for industrial building** | **December** | N.A. | 80 | 72 | **80** |

** Preliminary, week ended January 24, 1959.*
*† Revised.*
*†† Estimate.*
*** Ten designated markets, middling 15/16 in.*
*§ Date for 'Latest Week' on each series on request.*
*N.A. Not available at press time.*

**THE PICTURES**—Cover—Business Week Illustration Dept.; 23—Grant Compton; 25—Jack Fuller; 28, 29—Herb Kratovil; 31—Joan Sydlow; 64—U. S. Army; 66—Goodyear Aircraft Corp.; 79—(top lt.) Surface Combustion Corp., (top rt.) Gittings, (bot. lt.) Gray & Rogers; 91, 93—George Price; 96—Grant Compton; 97—(lt.) Sears, Roebuck & Co., (cen.) Grant Compton; 98—Robert Phillips; 99—(lt. & cen.) Columbia University News Office, (rt.) Joan Sydlow; 101—(top) General Electric Co., (bot.) George Price; 102—Joan Sydlow; 103, 105—George Price; 111—N. Y. Herald Tribune; 130—McGraw-Hill World News; 140—Archie Lieberman.

B.F.Goodrich


Photo courtesy Arnold Hoffman & Co., Inc., Providence, R.I.

# Filling station for fire water

### *B. F. Goodrich improvements in rubber brought extra savings*

***Problem:*** In making dyes and finishes for fine fabrics, they use hot, corrosive acid by the tankload. It's pumped from truck to storage tank through hose. But the acid is so strong and powerful, it would eat its way through regular rubber hose. Metal tubing couldn't take the sharp angles or stand much bending. Acid leaks were costly, dangerous to workers.

***What was done:*** After talking with a B.F.Goodrich man, the company decided to try a new hose which had just been developed by B.F.Goodrich. The lining of this hose is made with a new rubber compound that can stand even the corrosive acids and chemicals that destroy ordinary rubber.

***Savings:*** This improved B.F.Goodrich acid hose is what you see in the picture. It has already lasted a year and a half, and is good for still longer life. The B.F.Goodrich hose has put an end to the waste and danger of acid leaks, the cost of frequent hose replacements. Workmen claim the hose is lighter, easier to handle because it's so flexible, faster to hook up because of special attachments at the hose ends.

***Where to buy:*** Your B.F.Goodrich distributor has complete information on the new B.F.Goodrich acid hose described here. And, as a factory-trained specialist in rubber products, he can answer your questions about *all* the rubber products B.F.Goodrich makes for industry. *B.F.Goodrich Industrial Products Company, Dept. M-519, Akron 18, Ohio.*

**B.F.Goodrich** ***industrial rubber products***


# Mr. Chatterji and Mr. Chatterjee

## take their post-graduate course in steelmaking

Four days a week Mr. S. K. Chatterji and Mr. G. L. Chatterjee, together with other graduate engineers from India, receive instruction in steelmaking. On the fifth day, they attend classes at Lehigh University. Up to the present, more than fifty such engineers have participated in this program at Bethlehem, Pa.

The Indian Steel Training and Education Program, or IN STEP, as it is popularly known, is a part of India's ambitious plan to build a sounder economy and a better life for her people. And one of their needs is more experienced engineers to man their new industries.

Bethlehem and other American steel companies have thus far undertaken the training of 300 graduate engineers. These young trainees are getting on-the-job instruction in steel plants under the guidance of experienced steelmakers. Their technical training in the plant is supplemented by lectures, motion pictures, and assigned reading.

These Indian engineers are keen observers of the American scene. As they return to India with their newly acquired skills, we hope they also carry back many pleasant memories of their stay with us.

If you'd like to know more about this practical program in international relations, we'll send you a copy of our booklet "Training Engineers for India." Write Bethlehem Steel Company, Publications Dept., Bethlehem, Pa.

**BETHLEHEM STEEL**

BETHLEHEM STEEL

**BUSINESS WEEK • JANUARY 31, 1959 • NUMBER 1535**

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**POSTMASTER . . . Please send form 3579 to Business Week, 330 W. 42nd Street, N. Y. 36, N. Y.**

## READERS REPORT

### Wrong Comparison

Dear Sir:

We know how it happened, and forgive you—but please tell your readers that the comparison of price levels in the big Spiegel General Catalog for Spring and Summer 1959 with those in the winter sale books of our mail order competition gave a most erroneous impression [BW—Jan.3'59,p22]. The Spiegel Winter Sale Book, offering seasonal needs and year-end bargains, was priced as low as the sale books you quoted. The Spiegel General Catalog has an over-all average price level 2% to 2½% below the Spring General Catalog for 1958. Through coincidence, our big catalog reached the press the same day competition released its sale books.

FREDERICK W. SPIEGEL
VICE-PRESIDENT
SPIEGEL
CHICAGO, ILL.

### Answers Criticism

Dear Sir:

. . . Your Readers Report [BW—Jan.10'59,p5] . . . contained references to manufactured, or prefabricated housing. Since . . . [the] letter contains references to the Home Manufacturers Assn., I feel it only fair that we be given an opportunity to reply.

Each year the firm of Price Waterhouse & Co. handles an impartial, confidential survey of the home manufacturing industry concerning the number of units sold and the dollar volume for the year.

The reporting companies send their data direct to Price Waterhouse on a confidential basis and it is not shown to members or staff of the association or to the public. Price Waterhouse prepares for the Home Manufacturers Assn. a report on the number of units built by home manufacturers, dollar volume and the number of units per state per year.

. . . Reader Gertler of the Building Materials Div. of the U. S. Department of Commerce, says that the HMA figure of 93,500 units in 1957 is way out of line. I agree, it is very conservative. From the facts we have before us we estimate that 1958 production will be well over 100,000.

We fail to see Reader Gertler's basis of authority on information concerning this industry. To our knowledge we are the only agency

in this country keeping up to date information of all types on this fast-growing home manufacturing industry. Should you need accurate statistical data and facts in the future I hope you will feel free to contact this agency. . . .

CONRAD "PAT" HARNESS
EXECUTIVE VICE-PRESIDENT
HOME MANUFACTURERS' ASSN.
WASHINGTON, D. C.

## Number of Strokes

Dear Sir:

Many thanks for your informative article on Detroit Diesel Division of G.M. [BW—Jan.10'59, p54]. There is one minor technical point, however, on which your writer seems to be confused.

In the explanation of the difference between four-cycle and two-cycle engines . . . the four-cycle engine is said to require four strokes per crankshaft revolution. Actually the differentiation is based on the number of strokes per complete combustion cycle; i.e., total piston strokes per power stroke. A moment's reflection on the action of a piston engine will show clearly that there can be no other number than two piston strokes [for one given piston] per crank-shaft revolution, regardless of whether it's a two-cycle or four cycle engine.

WILLIAM H. OLDACH, JR.
ALDERSON ASSOCIATES, INC.
PHILADELPHIA, PA.

## New Jobs

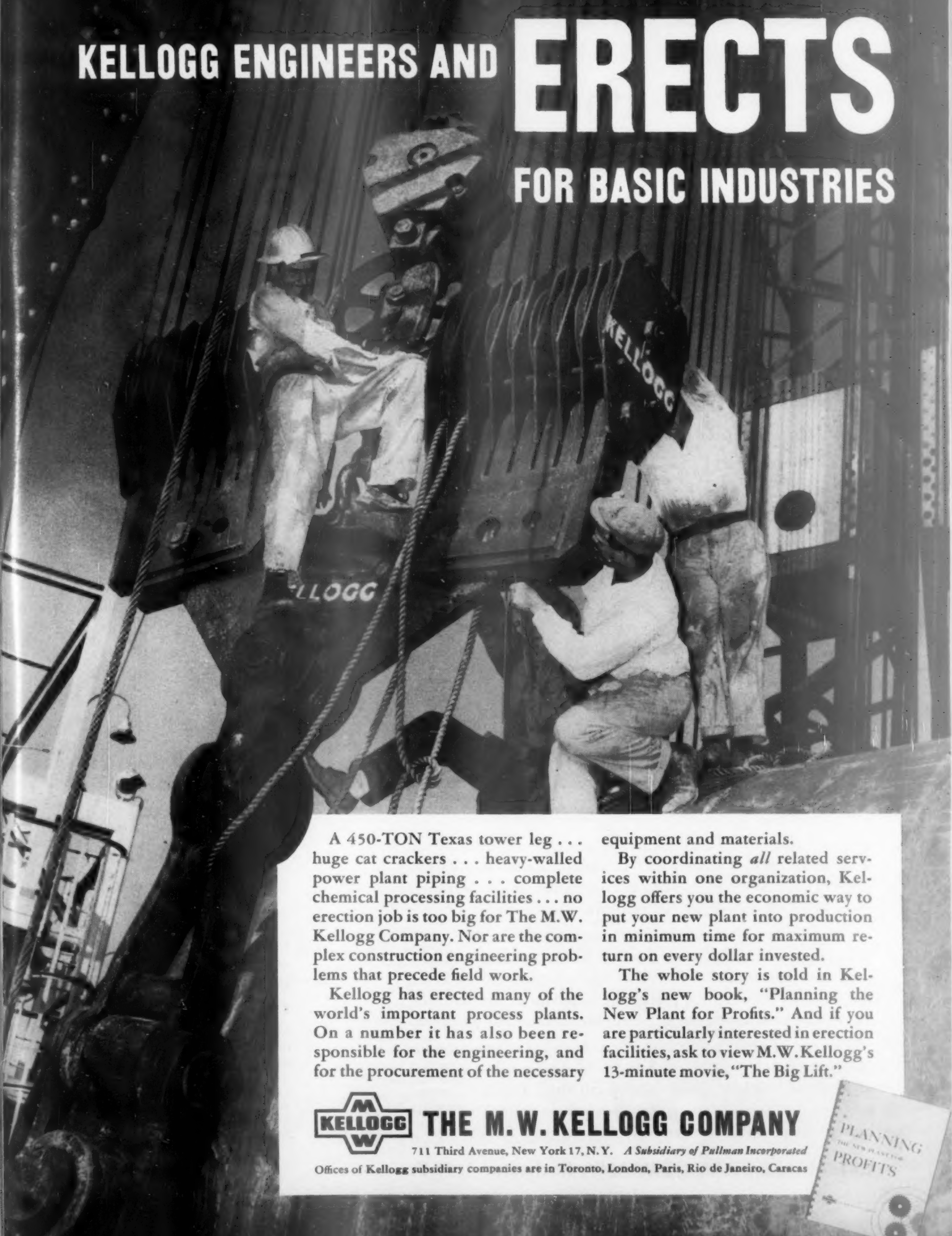
Dear Sir:

. . . In your excellent article The Jobs That Are Gone Forever [BW—Dec.20'58,p39] you raise a provocative question on page 42, "Then there is the even bigger question of retrain for what."

They could be taught to sell or to conduct inquiries. Marketing programs could be planned. Michigan has an excellent program of Distributive Education. They teach hundreds of adults to sell. Likewise, they teach high school students how to begin careers in distribution. . . .

L. T. WHITE
VICE-PRESIDENT
CITIES SERVICE PETROLEUM, INC.
NEW YORK, N. Y.

Letters should be addressed to Readers Report Editor, BUSINESS WEEK, 330 West 42nd Street, New York 36, N. Y.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PROFITS

PHOTOGRAPHY AT WORK—No. 35 in a Kodak Series

# For Jets

## more thrust, more range, more payload

**With photography as a tool, the N.A.C.A. Lewis Flight Propulsion Laboratory studies jet engine combustion chambers, and compounds that can result in new high-energy jet fuels.**

HOW MUCH faster and farther our aircraft and missiles can go seems now to depend on developing new high-energy fuels. This is a job of the Lewis Laboratory of the National Advisory Committee for Aeronautics.

And as in all kinds of industry, photography is playing an important role in this work. Motion pictures are taken of the interior of jet engine chambers through transparent walls. From the pictures the scientist learns the behavior of the fuel, the flame and exhaust through the engine turbine and tail pipe.

The use of photography in research and the development of new or better products is but one of the ways it is helping all kinds of businesses, large and small alike. Other ways are listed in the panel at the right. Check them over. You'll find how photography can save time and cut costs for you, too.

**EASTMAN KODAK COMPANY, Rochester 4, N.Y.**

**Here are some of the places Photography can work for you—**

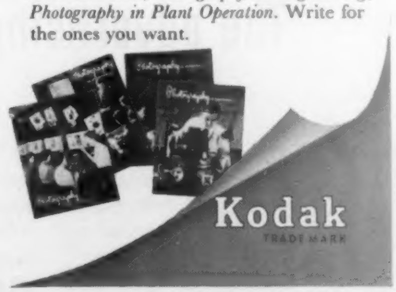
**a few minutes with this check list can give you suggestions that could mean extra profits**

- ☐ **Management**—Progress photos, Stockholder reports, Record preservation, Information distribution, Control and Organization charts
- ☐ **Administration**—File debulking, Purchase schedule, Office layout, Interior decoration, Form printing

The motion picture camera is seeing into a turbo-jet combustion chamber operating on a new fuel.

- ☐ **Public Relations**—News releases, Institutional, Community relations, Public service
- ☐ **Personnel**–Identification photos, Job description, Orientation, Payroll records, Employee personnel records, House organs, Health records, Bulletins
- ☐ **Training and Safety**—Safety campaigns, Teaching, Reports, Fire prevention
- ☐ **Engineering** —Drawings, Specification sheets, Drawing protection, Pilot radiography
- ☐ **Production**—Time study, Work methods, Legible drawings, Schedules, Process records
- ☐ **Product Design & Development** — Styling, Consumer testing, Motion studies, Stress analysis, Performance studies
- ☐ **Advertising**—Advertisements, Booklets, Displays, Dealer promotion, Television
- ☐ **Service**—Manuals, Parts lists, Installation photos, Training helps, Records
- ☐ **Research**—Reports, Flow studies, Process charts, Library, Photomicrography, Electron-micrography, X-ray diffraction, High-speed motion pictures, etc.
- ☐ **Testing & Quality Control** — Test setups, Reports, Standards library, Radiography, Instrument recording
- ☐ **Warehousing & Distribution**— Inventory control, Damage records, Waybill duplicates, Flow layouts, Packing & Loading records
- ☐ **Purchasing**—Schedules, Duplicate engineering prints, Specifications, Component selection, Source information
- ☐ **Sales**—Portfolios, Dealer helps, Sales talks, Price & Delivery information
- ☐ **Plant Engineering & Maintenance**— Plant layout, Repair proposals, Piping & Wiring installations, Progressive maintenance, Record debulking

**Send for free booklet.** These books show how photography is being used today. *Photography in Marketing*, *Photography in Administration*, *Photography in Engineering*, *Photography in Plant Operation*. Write for the ones you want.




## When equipment must roll around the clock...

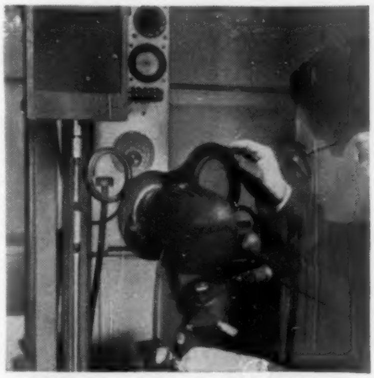
# GULF MAKES THINGS

You can learn a lot about the performance of petroleum products from companies whose equipment must roll around the clock. Utility companies, for example. Their trucks must go—in any weather, answering emergency calls, hauling equipment, meeting customer demands for uninterrupted service.

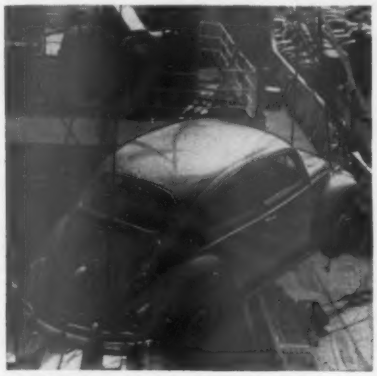
A long list of public utilities depend on Good Gulf Gasoline to keep their service fleets operating. Good Gulf . . . the finest regular grade gasoline available . . . helps provide the vehicle performance and dependability they demand.

Good Gulf is a clean burning gasoline that helps keep engines clean. This means full power, easy starting and smoother running. It eliminates many of the causes of too-frequent overhauls . . .

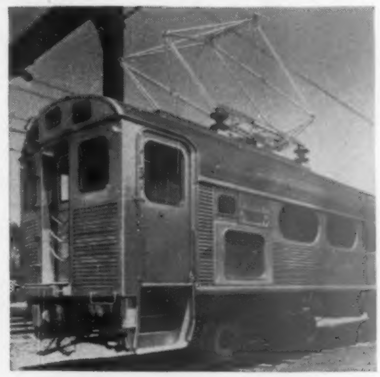
VULCAN MATERIALS COMPANY



*Tatnall Measuring Systems Company*, a subsidiary of The Budd Company, develops, manufactures and sells a complete line of modern physical testing equipment such as this PhotoStress machine that converts strain into color patterns. This and other Tatnall machines meet today's demands for precise measurement.



*The International Division* of The Budd Company has spread throughout the globe. Eleven European automobile manufacturers and body suppliers are under license to employ Budd patents and manufacturing methods. Four foreign railway car builders are also Budd licensees.



*The Railway Division* of The Budd Company has pioneered, developed and built a wide variety of all types of railway cars. Above is the newest addition to the Pennsylvania Railroad's commuter lines . . . a stainless steel, air conditioned, electrically propelled commuter car.

*The Automotive Division* of The Budd Company produces automobile and truck body components, chassis frames, wheels, hubs and brake drums. All major car and truck manufacturers are customers of Budd . . . the largest independent manufacturer of automobile body components today.

*The Defense Division* of The Budd Company is currently making major contributions to the development of jets, rockets and missiles. Budd engineering skills have provided jet engine parts for manufacturers such as Pratt and Whitney, General Electric, and Ford.

*Continental-Diamond Fibre Corporation*, a subsidiary of The Budd Company, has been a pioneer in the development and manufacture of laminated and molded plastics, vulcanized fibre and bonded mica in the forms of sheets, rods, tubes and tapes.

ELECTRIC TYPEWRITER COMPARISON CHART

| | SMITH-CORONA | Brand A | Brand B | Brand C | Brand D |
|---|---|---|---|---|---|
| AUTOMATIC MARGINS Simple one-hand, one-step operation. | YES | NO | NO | YES | NO |
| SIGNAL LIGHT Positive visual indication if motor is ON or OFF. | YES | NO | NO | NO | NO |
| TOTAL TABULATOR CLEAR Clears all stops instantly without moving carriage. | YES | NO | NO | NO | NO |
| ERROR CONTROL Simplifies correction of errors and line justification. | YES | NO | NO | NO | NO |
| BOTTOM MARGIN INDICATOR Page Gage accurately indicates bottom margin. | YES | NO | NO | YES | NO |
| 88 CHARACTER KEYBOARD Standard at no extra charge. | YES | NO | YES | NO | YES |
| KEYBOARD SLOPE Key top slanted to fit natural movements of fingers. | YES | NO | NO | NO | NO |
| ROLL-FREE ACTION Releases typebar cams with no "scuffing" action. | YES | NO | YES | NO | NO |
| SAFETY COVER Motor shuts off when cover is raised to change ribbon. | YES | NO | NO | YES | YES |
| CUSHIONED TOUCH Eliminates jar to sensitive finger tips at end of each stroke. | YES | NO | NO | NO | NO |
| THE WORLD'S FASTEST ELECTRIC TYPEWRITER | YES | NO | NO | NO | NO |

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Smith-Corona Electric

# BUSINESS OUTLOOK

**BUSINESS WEEK**

**JAN. 31, 1959**

**A BUSINESS WEEK SERVICE**

News on autos isn't creating a nice, clear pattern of prosperity.

**Production still is going pretty well. Yet few schedules now call for daily overtime and six-day output.** Moreover, Buick announced layoffs this week which will cut its production some 300 cars a day.

Nevertheless, the latest report on retail sales is hopeful. And Ford has announced plans to boost February output.

**Buick's slowdown and others' elimination of Saturday shifts are disquieting.** They recall the general cutbacks that began a year ago—cuts that were progressive right out to the end of the model year

Moreover, Buick is one of the cars with really striking design changes. That makes you wonder, more than ever, about public acceptance.

**Production at Chrysler, just to complicate things, is stuttering once again.** This time it is a shortage of glass, created by the long strike at Pittsburgh Plate, which has been Chrysler's main source of supply.

**Auto dealers report deliveries to customers, in January's middle 10 days, of 135,000 U. S.-built cars.**

That was an improvement over the first third of the month. It also was **a gain of about 17% compared with the year-ago period.**

Yet it wasn't enough to prevent some accumulation of cars in dealers' hands. **Production outpaced deliveries by 40,000-odd cars.**

**January passenger car production apparently came to almost exactly 550,000,** about 45,000 below intentions announced early in the month.

This is 60,000 ahead of January last year—better, in fact, than any month last year except December with its 594,000. But it is far below January output in 1955, 1956, and 1957.

Obviously Detroit is cautious about overbuilding dealer stocks.

**It's still too early to say that 1959 can't be a 6-million car year.**

Weather has been abominable for driving over much of the country in recent weeks. That kills the buying incentive. Besides, a lot of people probably still aren't 100% sure about their 1959 income prospects.

But there's a big market to satisfy. **Fully 6-million cars now on the road—and probably closer to 7-million—are 10 years or more old.** Last July, the latest complete report, there were 1½-million prewar cars.

That's a lot of junkers. But ask the man who drives one, and he will probably say, "Well, at least I can fit myself into it."

—•—

**Most business indicators give better impressions than autos.**

Steel, for example, shows a gain almost every week. Present output is 5% higher than a month ago and fully 40% above a year ago

**Steel production this month should not fall far short of 9¼-million**

**tons.** That not only would be the best recovery month by a substantial margin but also would be the highest in a year and a half.

In fact, **output this week is scheduled at an annual rate of exactly 115-million tons** (not allowing for seasonal slack—or strikes). Last year's output was just over 85-million tons, while the most prevalent estimates for 1959 are in the 107-million to 110-million range.

—•—

**Look at United States Steel Corp.'s 1958 earnings report and you'll perceive something of the industry's new efficiency.**

Wall Street used to assume that steel mills' break-even point was somewhere between 60% and 70% of capacity. **But Big Steel netted $300-million last year on average operations slightly under 60%.**

The Corporation, in fact, turned in fair profits even in the early quarters of the year when output ran less than 55% of capacity.

—•—

**Aluminum production in December was the highest for any month on record**—at an annual rate of 1.8-million tons. (Actual output for all of last year was 1,564,000 tons; best year was 1956 with 1,679,000.)

**However, production of the light metal can't be expected to stay at its December rate.** Most companies will be able to sell very little excess output to the government stockpile this year, so they'll have to gear their output much more closely to commercial demand.

**Markets for primary aluminum are continuing highly competitive.**

**Imported metal is discounted as much as 1½¢ a lb.** Moreover, McGraw-Hill's E&MJ Metal and Mineral Markets says there are reports that "many fabricators can get as good a price" from U. S. producers.

This helps explain why Kaiser Aluminum is closing down one of its seven potlines at the reduction plant at Mead, Wash.

—•—

**Copper prices looked stronger than ever this week.** Responding to higher quotations in London, custom smelters took the bit in their teeth on Wednesday and went up another half a cent a pound.

This put the smelters a full cent above the primary producers who were sticking to 29¢ in their effort to maintain a stable market.

**Few expected that U. S. producers could hold out much longer.** The price strength here continued, of course, to reflect London's more favorable market terms for foreign producers (BW—Jan.24'59,p20).

—•—

**Power production last week was 8% ahead of a year ago,** continuing the nice string of gains in the 7% to 9% range.

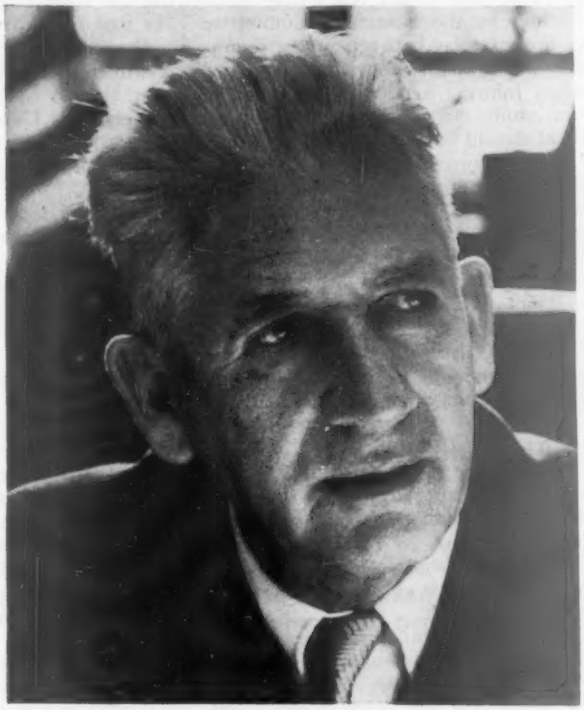
This improvement may not be entirely attributable to industrial recovery. Harsh weather has, of course, increased household demand. **Yet enough of it has to be industrial to speak well for business vigor.**

Meanwhile, the electric industry has a comfortable capacity cushion. It added about 10% to the generating potential in 1958, the Edison Electric Institute reports in a yearend summary.

● Congressional leaders are completing their line-up for a two-year drive against the Administration's economic policies.

● The key chairmanship of the Joint Economic Committee goes to Sen. Paul Douglas (picture), a professional economist.

● But there will be steady sniping from other committees, too, as Democrats start . . .



# Plumping for Faster Growth

The outlines of a broad, sustained Democratic attack on Eisenhower's views of economic growth and inflation are beginning to emerge in Washington.

Simply stated, what the Democrats have already begun is a series of sharp attacks on just about every economic premise on which Eisenhower is basing his programs and spending policies. Democrats are critical of the Republican assumptions on the country's long-term rate of growth, the danger of inflation, the seriousness of unemployment, and the kind and size of government programs needed to cope with these basic problems.

For a while, it appeared this week that Democratic infighting for position might disorganize the effectiveness of their own attack. But at the last minute, Congressional leaders straightened out their assignments for the anti-Eisenhower drive they hope to sustain for the next two years.

The first solid move was the selection this week of Sen. Paul Douglas of Illinois (picture) as chairman of the Joint Economic Committee. Douglas, a professional economist before he became a politician, immediately opened a critical hearing on the President's economic report to Congress (BW—Jan.24'59,p25).

Sen. Estes Kefauver (D-Tenn.) meanwhile completed the first of a new series of hearings into what he suspects is a link between inflation and the pricing policies of big corporations in concentrated industries.

Rep. Wright Patman (D-Tex.) is hopeful of winning House approval for an investigation of Federal Reserve and commercial banking practices. One of his goals is to limit the Federal Reserve's power to tighten up on credit as an anti-inflation device. The House refused to approve the investigation last year, but Patman believes the lopsided Democratic majority this year will give him what he wants.

## I. Who's in Charge

Chairmanship of the Joint Economic Committee puts Douglas in a strategic position for the next two years. He could emerge as anchor man for the whole Democratic assault on Eisenhower's economic policies. First, however, he will have to come to a working agreement with Democratic leader Lyndon Johnson.

Johnson wanted Sen. John Sparkman (D-Ala.) to take the Joint Economic post, and for two weeks Sparkman wavered. Finally he chose to remain as chairman of the Small Business Committee, and the Economic chairmanship passed to Douglas under the seniority rules.

Douglas, a leader among Northern liberals, has clashed with Johnson on civil rights.

• **Johnson's Ideas**—Johnson has called for two economic research projects by Congress this year:

• A study of the fundamental causes of inflation in modern industrial societies.

• A survey to measure the future needs of the growing population for government services.

The second of these projects is similar to an idea advanced by Eisenhower in his State of the Union message. So far, nothing has been done to imple-

ment either of Johnson's proposals. Now that Sparkman has stepped out of the picture, Johnson must either deal with Douglas or put both of his studies in other hands.

• **Douglas' Position**—Douglas is not saying what he wants. He did not play an active role in last year's long investigation by the Economic Committee of the interplay between prices, profits, and wage rates. Though he applauded when Johnson first called for an inflation study, he argued that unemployment should be added to the agenda.

The chances are good that, after letting Johnson sweat a while, Douglas will announce that the Economic Committee will undertake the inflation investigation and that Johnson will call for a special committee to sponsor his national goals study.

If he likes, however, Johnson has the power to place both studies outside the Economic Committee, leaving Douglas with no major assignment.

## II. The Attack

From all this skirmishing, the main lines of the Democratic offensive shape up like this:

**The Administration is accused of being satisfied with an inadequate rate of economic growth.**

Raymond Saulnier, chairman of the President's Council of Economic Advisers, ran into steady questioning by Democrats on this point in his closed-door appearance before Douglas. Saulnier's testimony will be published later, after he has edited it.

An 8% jump in gross national product in calendar 1959 is implied by the Administration's revenue estimates in the budget—a jump in GNP from \$436.7-billion in 1958 to something like \$472-billion this year. Compared with the 50-year average of 3% a year, this is substantial. But Democrats, by going back to 1957, can show that the combined recession and recovery years of 1958-59 will show only a 1.6% gain per year. This is the heart of their criticism.

**Unemployment will continue to exceed pre-recession levels into 1960 at the economic growth rate accepted by the Administration.** Even Administration economists expect this, and Democrats are ready to make what political capital they can from it. Before the recession began in 1957, the number of jobless was running about 4% of the labor force. The latest count was 6%.

One Democratic cure for the stickiness of unemployment is a bill sponsored by Douglas and 38 other senators—including six Republicans—to make \$379-million available to aid the development of depressed areas where unemployment is a permanent problem. This figure compares with the \$55-million that Eisenhower recommends.

**Democrats insist that Eisenhower is misreading all the economic signs when he makes inflation the major concern of his budget and economic messages.** In the economic hearings, they are stressing the stability of consumer prices in the past two years.

Democrats believe the Administration is wrong about the causes of the inflation, thus is seeking the wrong cures.

• **Kefauver's Cure**—In his hearings on administered prices, Kefauver has already sharpened up one clash of this kind.

In his State of the Union message, Eisenhower singled out the power of unions to raise wages as a basic cause of inflation. Kefauver—after listening to the testimony of five professional economists—this week told the Senate that the real culprit is what he calls "administered price inflation." He thus put the responsibility on the big corporations in such industries as steel and autos.

Kefauver's cure is a new set of antitrust regulations aimed at reducing the size of big corporations and at making it tougher to form mergers.

• **Patman's Criticism**—Patman in the House and the Senate Finance Committee will develop another area of disagreement over the proper cure of inflation.

One of their points will be that the Administration's reliance on orthodox anti-inflation weapons—such as restrictive credit and balanced budgets—have failed in recent years to check price rises and will fail again.

Sen. Robert S. Kerr (D-Okla.), second ranking Democrat on the Finance Committee, will be a leader in developing this theme.

• **Basic Clash**—Finally, Democrats will argue that Eisenhower's budget levels are too low, and that his attempt to cut spending from the present \$81-billion a year level to \$77-billion endangers the very expansion that's expected by the Administration this year.

Maurice H. Stans, director of the Budget Bureau, ran into heavy fire when he appeared before the Joint Economic Committee to defend budget levels. Sen. Joseph C. O'Mahoney (D-Wyo.) contrasted Soviet plans for water development with the Administration's decision to oppose any new projects in the next fiscal year. And Rep. Henry S. Reuss (D-Wis.) pressed him on the Administration's "budget philosophy."

Reuss asked Stans what would have happened if the revenue estimates had been only \$75-billion: "Would civilian programs have been cut another \$2-billion?"

Not likely, Stans said. "The Administration then would have had to accept a \$2-billion deficit."

# Defense

The chart shows where defense money is going in the next fiscal year, for buying of weapons and for research and development. The total is almost half the \$42.7-billion that the U. S. will commit for defense next fiscal year.

This week a big fight is developing over the amounts. The House Defense Appropriations subcommittee is at work on details of the budget. And Senate leader Lyndon Johnson's own investigation started last Thursday. At issue between the Administration and the Democratic Congress is whether we are strong enough, whether the Soviet Union is outstripping us in rocketry, missilery, and outer space.

• **Up but Tight**—The new budget is avowedly an economy one. Though selected projects are being accelerated—notably the ICBM program—other important projects are being weeded or trimmed. The net result is a mere \$145-million increase in total outlays. Actual expenditures in fiscal 1960 are estimated at \$40.9-billion, as distinguished from the earmarking of \$42.7-billion for new contracts and other obligations.

As critics in Congress and the Pentagon see it, the slight increase in spending won't even be enough to handle the hikes in costs that can be expected. In effect, the critics claim, the new spending plans call for further cuts in over-all arms procurement and development.

Over the past few years, higher costs have added some 3% per year to defense spending. The new budget fails to take into account such potential increases—which, based on previous experience, would alone mean a \$1.2-billion rise next year.

Total expenditures for procurement, research and development, and construction—the areas most susceptible to price changes—are slated to rise only \$300-million to \$18.9-billion. Says a top-level Pentagon budget official: "We're confident that there won't be the same pressure on prices for us next year as there've been in the past."

## I. New Contracts

Looking at the budget from another angle—the volume of new contract awards—you can see another drop in Pentagon plans. Contracting for arms procurement and R&D (chart) will total \$18.6-billion down \$600-million, from the current year. New contract awards for construction will dip from \$1.9-billion to \$1.6-billion.

Here's a rundown on the Pentagon's shopping list for next year:

**Air Force** will buy 703 planes at a cost of \$4.8-billion, \$400-million under

# Spending in a Tight-Purse Year

## How $18.6-Billion Will Be Spent on Defense Next Year

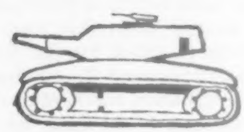
**Planes—Total new orders continue to drop—from $7.3-billion to $6.8-billion. Air Force continues orders for bombers and tankers, cuts fighters. Navy boosts orders for fighters, cuts light bombers.**

**Missiles—New orders dip from $4.1-billion to $3.8-billion, as numbers of projects are cut. But more money goes for ICBM and Polaris.**

**Ships—Navy contracts drop from $1.9-billion to $1.7-billion. Three more A-subs planned for Polaris missiles, and another super carrier.**

**Electronics — Over $4.5-billion will be let for missile and aircraft electronics, radar, communications, and other gear. Roughly same level as last year, but deliveries rising.**

**Plant & equipment—Spending is dropping, but $265-million asked for new plant for advanced weapons.**



**Tanks & trucks—Tank procurement up slightly as Army modernizes combat units. Truck-buying to be trimmed after this year's heavy procurement.**

**Artillery, weapons, ammunition—Buying to be boosted slightly. Defense asks for $358-million—$20-million more than last year.**

**Research & development — New orders to rise $200-million to $3.7-billion total. Includes $1.4-billion for missile projects, $487.3-million for aircraft, $309.1-million for military space projects.**

this year's new aircraft orders. It plans to buy several dozen more Boeing B-52 heavy bombers (beyond the 642 now scheduled), more Boeing KC-135 jet tanker planes, and several dozen more Convair B-58 supersonic medium bombers. Production of B-58s has now reached a total of 66 planes.

No orders will be placed for interceptor planes—which means a possible phase-out in output of Convair's F-106. Fewer fighter-bombers will be ordered, with most contracts slated for Republic's F-105.

New orders for missile production will total $2.7-billion, which is $87-million less than this year. Orders will be increased for Convair's Atlas ICBM and Martin's Titan ICBM (funds will be increased 50%). Other orders will go for North American Aviation's Hound Dog, Martin's Mace, Hughes' Falcon, McDonnell's Quail, and Boeing's Bomarc missiles.

Production of Douglas's Thor and Chrysler's Jupiter IRBMs will be phased out during fiscal 1960. Current schedules call for five squadrons of Thor and three of Jupiter (with probably 15 missiles per unit) to be installed in Great Britain, Italy, Greece, and Turkey. Additional production will be ordered when and if France decides to take IRBMs. Still more output of the Thor and Jupiter is likely for use as boosters in space probes.

These will be financed through the budgets of the Pentagon's Advanced Research Projects Agency, which coordinates military astronautic projects, and the National Aeronautics & Space Administration.

The Air Force will boost new orders for ground communications and electronic gear from $710.2-million this year to $870.4-million. At least one-third of the funds will go for the ballistic missile early warning system and the SAGE air defense system.

New Air Force contracts for R&D will rise $100-million to $1.1-billion. Well over half the order will go for missile projects such as Boeing's Minuteman ICBM (funds to rise 40%) and the new Bold Orion airborne IRBM, and for aircraft projects such as the B-70 bomber, F-108 interceptor, X-15 experimental rocket plane, and the Dyna-Soar boost-glide bomber project. Limited funds are set aside for de-

velopment of an aircraft nuclear propulsion system, none for the airframe of the atomic-powered plane.

**Navy** contracting for new procurement will drop from $5.1-billion to $4.7-billion. Plans call for construction of 18 major ships—including another conventionally-powered super aircraft carrier and a stepup in anti-submarine vessels. Contracts will be let for three more A-powered Polaris IRBM subs, using funds that Congress tacked on to last year's appropriation and for the nuclear reactors and other long-lead-time components for three additional Polaris subs.

The Navy will buy 668 new planes at a cost of $1.9-billion, a decrease from this year. The contracts will cover more all-weather fighter-interceptor planes—notably McDonnell's F4H-1—and fewer attack aircraft. Missile procurement orders will total $658-million, a slight decrease from this year, with major contracts slated for the Polaris, Sidewinder, Talos, and Tartar missiles.

**Army** new orders for hardware will top the current $1.3-billion level by $100-million.

The Army will continue production of the Nike Hercules and Hawk missiles, expand the Pershing and Sergeant projects, and phase out the Redstone. It will buy more turboprop observation planes and fewer helicopters.

Army's R&D will stress the Nike Zeus and Plato anti-missile systems and projects to develop lighter vehicles, self-propelled guns, a new anti-tank system, and other field weapons.

**The Advanced Research Projects Agency** is earmarking $455-million for new contracts next year, $27.7-million more than this year. The agency's funds—much of it to be farmed out to the individual services for contracting—will go primarily to development of reconnaissance, communications, and navigation satellites and for research on ballistic missile defense systems.

## II. Johnson's New Probe

Even before the Johnson hearing started with Defense Secy. McElroy as the first witness, the outlines for the investigation were already obvious.

Sen. Stuart Symington (D-Mo.), a member of the investigating group and a longtime critic of Administration defense policy, charged last week that Administration penny-pinching on defense will allow the Russians to build up an inventory of operational ICBMs four times the size of ours in 1961.

This missile gap, said Symington, is "vital to our security, for if Russia has enough [ICBMs] to deliver a knockout blow, and we have not enough strength left to retaliate effectively, a major element of our defense strength, on which we have based the position of ourselves and our allies in this uneasy peace, crumbles."

Russian missile power claims took on new significance this week with Soviet Premier Khrushchev's boast that Moscow has already begun "serial production" of ICBMs that can be launched with "pinpoint accuracy to any part of the globe."

One top-level Russian expert in Washington interprets Khrushchev's statement this way: that the Russians have frozen their ICBM design and are producing operational-type weapons on an assembly line. Actual volume of production, however, is still subject to question. Although a production assembly line for Atlas has been set up here, the Atlas design is still not standardized. Design changes are still being cranked in as a result of test flights. Atlas output is in very limited quantities.

McElroy, meantime, has tried to knock down charges of Soviet ICBM supremacy. He told a Pentagon press conference that "published reports of Soviet ICBM capabilities are exaggerated." He said the U.S. has "no positive evidence that the Russians will have operational ICBMs before we do."

Gen. Nathan F. Twining, Chairman of the Joint Chiefs of Staff, flatly denied that the Russians have an ICBM in mass production.

• **The Questionable Gap**—Both the Symington and the McElroy conclusions are presumably based on the same intelligence estimates. The differing interpretations seem to indicate that U.S. intelligence on Russian military capabilities is so limited that such widely varied deductions can be made.

The new investigation comes on the heels of similar probes conducted in the spring of 1956 by a Senate Armed Services subcommittee headed by Symington and from November, 1957, to January, 1958, by Johnson's own Preparedness subcommittee.

Both came up with conclusions of serious "gaps" in U.S. military power. Both recommended steep increases in military outlays. Though bits of both reports have been adopted by the Pentagon—such as an acceleration of the ICBM program and a stepup for the ballistic missile defense system—the net effect of the two earlier recommendations was felt more on the political scene than in the military program.

• **Switching Sides**—Johnson's latest investigation is marked by the appearance of Max Lehrer, the Pentagon's longtime chief economist, as assistant staff director for the Senate Space Committee.

During the two earlier investigations, Lehrer sat at the side of Pentagon witnesses, feeding them data to help respond to Senatorial questioning. This time Lehrer will sit at the other side of the table as the Senate probers seek answers to Johnson's basic questions:

"Where does this nation stand in the fields of national defense and outer space? Is the U.S. doing everything that it reasonably can and should do to insure the defense of this country and its allies against military aggression?"

# One Merger Out, Another Up to Bat

**Bethlehem and Youngstown decide to junk their merger plans; two smaller steel producers talk marriage.**

Bethlehem Steel and Youngstown Sheet & Tube this week decided it isn't worth $500,000 to carry to the U.S. Supreme Court the landmark decision that condemned their merger proposal on antitrust grounds (BW—Jan.3'59, p20). At the same time, two smaller steelmakers announced they might wed.

Bethlehem and Youngstown scrapped their merger arrangement after learning an appeal probably couldn't be resolved before 1960. This way, they avoid continued uncertainty and make it possible for each company to get on with planning its own future. The two still insist, though, that the merger would have benefited both the public and steel users.

Youngstown has already started three substantial projects—sintering plant and continuous annealing line at Indiana Harbor and a rebuilt hot sheet mill at Youngstown. Bethlehem is studying how it can best reach the strategic Midwest steel market, in which, had the merger gone through, it would have inherited Youngstown's strong position. There's the possibility Bethlehem might decide to build a wholly new plant at its Burns Ditch property on the Indiana shore of Lake Michigan.

• **Declaring the Banns**—While the second and sixth biggest steelmakers were writing off a 30-year dream, the 13th and 14th largest—Sharon Steel and Pittsburgh Steel—resumed one. Pittsburgh Steel revealed that the two are exploring a merger. They would from the ninth largest producer, with a capacity of 3.4-million annual ingot tons.

The marriage would put Pittsburgh into the stainless steel business and bring Sharon's heavy cash position and debt-free capital structure to bear on its own substantial debt. And Sharon would gain wide sheet capacity.

# How Steel Companies Line Up

| COMPANY | RANK NOW | RANK YEAR AGO | 1/1/59 CAPACITY 000's Ingot Tons | FIVE-YEAR % GROWTH IN CAPACITY | SHARE OF INDUSTRY TOTAL CAPACITY 1/1/59 |
|---|---|---|---|---|---|
| U.S. Steel | 1 | 1 | 41,916 | + 8.3% | 28.4% |
| Bethlehem | 2 | 2 | 23,000 | +24.3 | 15.6 |
| Republic | 3 | 3 | 12,742 | +24.2 | 8.6 |
| Jones & Laughlin | 4 | 4 | 8,000 | +29.7 | 5.4 |
| National | 5 | 5 | 7,000 | +16.7 | 4.7 |
| Youngstown | 6 | 6 | 6,750 | +22.7 | 4.6 |
| Inland | 7 | 8 | 6,500 | +38.3 | 4.4 |
| Armco | 8 | 7 | 6,400 | +30.6 | 4.3 |
| Kaiser | 9 | 13 | 2,933 | +91.0 | 2.0 |
| Colorado Fuel & Iron | 10 | 9 | 2,837 | +15.0 | 1.9 |

*Data: Amer. Iron & Steel Inst.*

©BUSINESS WEEK

**Oxygen techniques, a growing trend in steelmaking, enabled Kaiser Steel to boost its capacity 91% and vaulted it into ninth place in the industry standings.**

This year will go down in steel history as the year of the big oxygen boom—but it may be only the first of quite a few. Already, the increased use of oxygen techniques is affecting the standing of some of the companies in the top ranks of steelmaking (table).

The reason for the growing popularity of oxygen practices is found in the speed it imparts to what has been a fairly slow, batch process. Blowing oxygen onto molten steel is the simplest way to boost the tons of steel produced per hour, whether in a converter, an openhearth, or an electric furnace. It speeds up the oxidation step by, in effect, using the undesirable metalloids in the bath—silicon, carbon, phosphorus, and manganese, for example—as fuel. Such use of oxygen produces higher temperatures and faster reactions. For example, one oxygen converter shop routinely melts at a rate of 81 tons per hour, whereas the average for U.S. openhearth shops probably falls between 25 and 35 tons per hour.

• **Impact in 1958**—In the past year, oxygen techniques made a strong impact on steelmaking:

• The number of oxygen converters more than doubled, from five to 12.

• The seven new vessels accounted for 42.8% of an unexpected total of 6.9-million additional tons of capacity. It was the largest annual increase during a bad steel year in modern steelmaking history. The new capacity total: 147,633,670 annual ingot tons, up 4.8% or almost 7-million ingot tons.

• Converters enabled one company, Kaiser Steel, to boost its capacity by 91% and vault from 13th to ninth place among all U. S. steelmakers. They enabled Acme Steel to boost its capacity 74% and became the 18th largest commercial producer.

• Oxygen practice, both in converters and conventional openhearths, turned up some staggering steelmaking rates. Weirton Steel melted a 585.9-ton openhearth heat of partially blown metal at a rate of 104.9 tons per hour with roof lances. And Jones & Laughlin melted a 108-ton oxygen converter heat at a rate of more than 100 tons per hour.

In addition, the use of oxygen, primarily through roof lances, had considerable to do with the 4.2-million ton increase in openhearth capacity during 1958—which was accomplished with six fewer furnaces.

• **Favorable Factors**—Several factors make it plain that oxygen melting will continue to boom. They include these:

• Oxygen converter capacity—which looks flexible enough to produce a wider-than-anticipated range of steels—costs less than half as much as equivalent new openhearth capacity.

• Oxygen roof lancing in existing openhearths looks thoroughly economical (1) because of the new practice of using all basic brick for openhearth roofs (BW—Oct.25'58,p63), (2) because it's an inexpensive way to raise furnace efficiency, and (3) because it speeds up melting time enough to boost output significantly.

Actually, 1958 brought nothing new in oxygen steelmaking practice. But it certainly spurred a trend that had been growing handsomely.

• **Change in Standings**—The line-up of steelmakers changed in response to the impact of oxygen steelmaking. Inland Steel, for example, raised its capacity 700,000 tons in one year to dislodge Armco from seventh place.

By adding 1.4-million tons, in the form of three oxygen converters, Kaiser joined the top 10 producers, dumped Colorado Fuel & Iron to 10th place and pushed Wheeling Steel from 10th to 11th.

Changes were even more marked in the list of the second 10 producers. Aside from the Kaiser-Wheeling transfer, Acme and Lukens moved into the group, the latter taking over 19th place by adding 180,000 tons of electric furnace capacity. Barium Steel and Northwestern Steel & Wire were displaced, the former because it disposed of its Industrial Forge & Steel holdings. If you include Ford and International Harvester, two iron commercial producers, in the listing, there are 20 producers now with 1-million tons or more of capacity for the first time in history.

There was one significant change also in the list of the five largest steelmaking plants. Inland's Indiana Harbor Works, at East Chicago, Ind., became the third largest plant as a result of the addition of 700,000 tons of capacity there.

Bethlehem's Sparrows Point plant near Baltimore remained the largest, but U. S. Steel's Gary Works, where 795,000 tons were added, came close to closing the 1-million ton gap Sparrows Point opened last year. Bethlehem's Lackawanna plant at Buffalo, and U. S. Steel's South Works at Chicago now rank fourth and fifth.

Openhearth capacity, which had accounted for 87% or 88% of all steelmaking capacity for years, was down to 85.7% in 1958. Inevitably, that proportion will rise again. Oxygen practice through roof lances assures that.

• **Decline for Bessemer**—Bessemer steelmaking capacity sagged to 2.4%, the lowest ever, with only 3.57-million tons of capacity remaining in 31 converters. The proportion of Bessemer capacity will continue to drop, but actual tons of capacity probably won't decline much—it's too valuable for certain kinds of steelmaking.

The number of electric furnaces rose, but the capacity gain was less than 200,000 tons. So this process, which had been growing briskly for 20 years, suffered its first setback as a proportion of the total since 1946 when some worn-out capacity was dismantled.

Oxygen converter capacity went up more than 3.5 times and, at 4.03-million annual ingot tons, surpassed Bessemer capacity for the first time.

# U.S. Grows an Educated Palate

IMPORTED CHEFS from Maxim's in Paris help spread the gourmet cult; they prepared rare feasts in private homes on both the East and West coasts.

The men and women in the pictures who are pampering their palates with a succession of such delicacies as filet de boeuf en croute farci au foie gras (fillet of beef in crust with goose livers) are no uncommon sight today. The spreading gourmet cult they typify now reaches from these lavish Park Avenue apartments and suburban palaces all the way to the deeper grass roots of the Middle West.

Some of the wealthier patrons of the cult recently paid $100 a plate—for charity's sake—to regale themselves, at the country home of the Waldorf's famed host, Claudius C. Philippe, with such dishes as consomme de gibier a la Duchesse d'Uzes (consomme of game), served with a rare Madeira wine, Solera 1792. For a feast at Mme. Helena Rubinstein's New York triplex, Louis Vaudable of Maxim's flew two chefs direct from his Paris restaurant.

The French chefs also officiated on the West Coast at the opening winter dinner of the Beverly Hills Wine & Food Society.

But if you think this is only another case of the rich coming out of hiding (BW—Nov.15'58,p58), just consider these random straws in the onrushing gale.

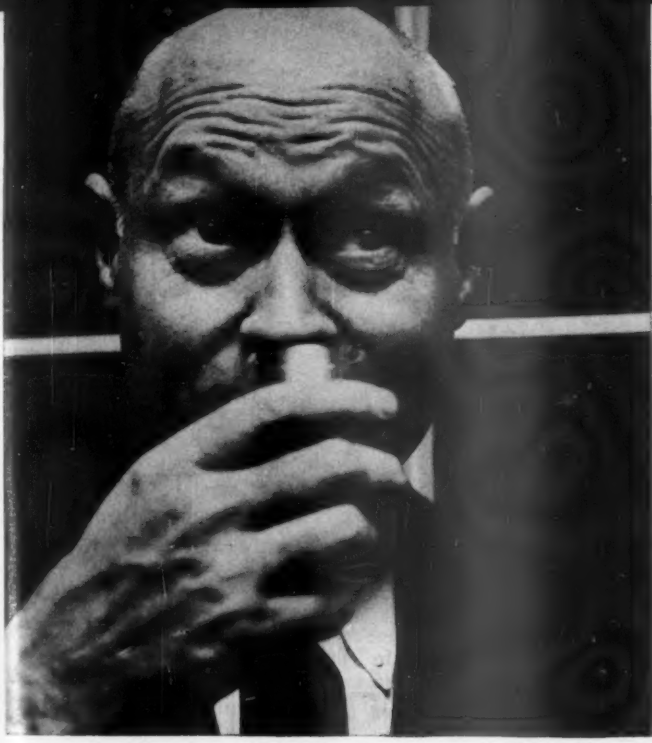
New York Times food editor Craig Claiborne reports that "requests for foreign dishes are mounting every day in our reader mail from all over the U.S." A Nebraska women's club food chairman wants General Foods' Gourmet Foods Div. to tell her about "new foods," so her fellow club members can know what's stylish to serve for Sunday night suppers. An Army private asks "how best to serve gourmet foods."

• **Elusive**—In fact, the gourmet urge has spread so rapidly that it has got a bit ahead of the market researchers and trend talliers; and as a result, the profile of the gourmet foods consumer is somewhat elusive.

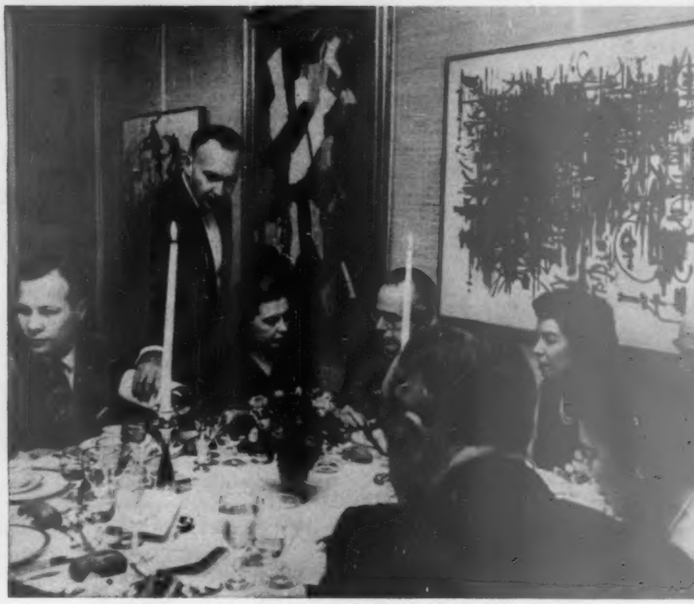
It appears, however, that social and cultural background is more of a common denominator than income. The gourmet food fancier may live anywhere in the country. Most gourmet foods, though, are sold in the bigger cities.

One purveyor to the gourmet, Max Reese, of Reese Finer Foods, Inc., of Chicago has attempted a portrait. The average gourmet buyer, he finds, is between 40 and 55 years old, has an income of $7,500 or over, and usually likes to stay home and entertain. But occupation may be almost anything.

• **Do-It-Yourselfers**—For men, the gourmet food lure has a decided "do-it-yourself" aspect. Mrs. Caruba of the Wine & Food Tasters of New Jersey



FINE COGNAC tops off Lucullan repast for which New York devotees journeyed to Peekskill home of Waldorf's host, Claudius C. Philippe—and paid $100 a plate for the benefit of charity.



PARK AVENUE provides plush, modern decor for the fine wines and foods at this dinner at Mme. Helena Rubinstein's—but the gourmet rage is invading the grass roots of the Middle West, too.

HAUTE CUISINE reaches its mouth-watering peak in this "tournedos" at the Philippe dinner, but clubs for its propagation are spreading through the U. S.—and purveyors of gourmet foods are smiling happily.

RARE WINES stimulate gourmet palates—and U. S. use of table wines is soaring—2.4-million gal. were imported in seven months of 1958, against 400,000 gal. 10 years ago.

has more applicants for her chef courses for men than she can accommodate—and, she adds, "they love to make chafing dish specialties and flambeed creations."

In Chicago, male enrollment in the Antoinette Pope School of Fancy Cookery has increased over a year ago.

• **Fruits of Travel**—If gourmet food fanciers elude easy classification, there's more agreement on what made them—the postwar increase in travel.

Says the New York Times' Craig Claiborne: "People have tasted some of the best of foreign foods while abroad and now they want more—at home." Vincent Sardi, Jr., of Sardi's restaurants in New York, notes the influence of overseas stints of servicemen.

• **Proliferating**—At any rate, the clubs and other organizations devoted to the education and satisfaction of gourmet tastes are spreading through the land. The Wine & Food Society, which celebrates its 25th anniversary this year, now has 44 chapters.

Another leading gourmet group, Les Amis d'Escoffier, has 19 branches.

The exclusive Confrerie des Chevaliers du Tastevin de Bourgogne has eight chapters in major cities. In Dallas, the chapter headed by Stanley Marcus, president of Neiman-Marcus Co., has 26 business and professional members.

• **Mounting**—Though the gourmet is an elusive creature, there's one place where his activity is tallying up some yardstick of its growth. That's on the books of the companies that turn out, distribute, or sell gourmet foods.

General Foods Corp.'s Gourmet Foods Div., for example (BW—Aug.23 '58,p55) finds that the sales base for this line is turning out to be much broader than it had expected.

"Business is good," echoes a spokesman for Spice Islands Co. in San Francisco, which packages about 100 items in four categories—spices, herbs, teas, and vinegars. It says its sales are now "well into the millions."

Or take Telefood, Inc., of Chicago, whose members sell gift packages of delicacies. When the business started 21 years ago, less than 1,000 stores in the country handled these special food products; now there are close to 6,000.

• **Paper Profits, Too**—Publishing, too, has felt the impact. Gourmet magazine's monthly circulation has increased 300% in six years. In April a new quarterly, Gastronome, a joint French-American effort, will appear.

Sales of cookbooks—whether in expensive hard covers or cheaper paperbacks—are soaring. Simon & Schuster's $25 book, The Art of French Cooking, sold out at $19.95 before it came off the presses a few weeks ago.

At the other end of the scale, Bantam Books' The Art of Italian Cooking, at 35¢, has finished its sixth printing.

# Gas Starts to Cross the Ocean

**Pioneer liquid gas tanker is being loaded for maiden trip to deliver Louisiana gas to Britain—and its success could turn the petroleum industry upside down in a decade.**

An unprecedented cargo was being loaded this week at Lake Charles, La., aboard a new type of tanker for a trans-ocean voyage that, if successful, could turn the petroleum industry upside down within the next decade by creating a new source of packaged energy, transportable and salable anywhere.

The tanker, the Methane Pioneer, will ferry across to Britain the first cargo of liquefied natural gas that has ever tried to cross the ocean; U. S. customs men at Lake Charles said the ship was expected to leave its berth for the history-making voyage before the weekend.

• **London Deal**—What makes industry experts see in the voyage a petroleum revolution and the biggest thing since atomic energy is this. The tanker's 33,000-bbl. liquid methane cargo is headed for the Regent Oil Co. jetty at Canvey Island, Great Britain, for delivery into the London gas distribution grid. And it will be delivered for less.

The 33,000-bbl. cargo in the converted freighter is equivalent to 115-million cu. ft. in gaseous form. That's enough to supply the average needs of around 1,000 U. S. homes for a year.

The London experiment is a joint effort of the British Gas Council and the Constock Liquid Methane Corp., a U. S. company formed by Continental Oil Co. and Union Stock Yard & Transit Co. of Chicago (BW—Mar.22 '58,p149). Constock, which converted the freighter, is studiously uncommunicative about the whole business, but reports are that shakedown cruises in the Gulf of Mexico have been successful. The U. S. Coast Guard has been interested, and is supervising loading

• **Answers**—Technically, the Methane Pioneer's voyage still will answer this question: Can gas at the extremely low temperature of minus 260F be moved in a ship safely, successfully, and profitably? An affirmative answer to that will open up many other possibilities.

It could, for example, set off a spurt in ship orders comparable to some of the small-sized tanker booms of recent memory. But more than that petroleum industry experts see vast new sources of energy becoming available, and hitherto untapped markets being brought into the industry picture.

• **Competition**—Here's what the experts project:

Gas from the prolific Venezuela fields—now being flared in huge quantities—could provide severe price competition in the New York area for gas delivered by domestic transmission lines, some experts say, though others feel the competition would be tough only if new pipelines were needed.

Detailed price studies by International Energy Reports indicate these figures for moving liquefied gas (though, with no precedents to go by, its editors point out, estimates are, at best, calculated guesses): Venezuela to New York 21¢ to 48¢ per mcf.; U. S. Gulf Coast to New York, 22¢ to 49¢ per mcf.; Persian Gulf to North Sea area, 37¢ to 64¢ per mcf.

The first big markets would develop in Europe and Japan. Liquefied gas, editors of the Reports say, could be highly competitive in any area where manufactured gas sells for $1 or more per mcf.—and that price applies generally in Europe. The optimists see a Western European market of nearly 3-trillion cu. ft. by 1975, and 900-billion cu. ft. in Japan by the same date.

Imported gas could even become a threat to the U. S. domestic industry. Federal Power Commissioner William R. Connole has said that oil imports are a mere pinprick compared to what the coal, oil, and natural gas industries would face if liquefied methane by tanker becomes a reality.

• **It Depends**—Whether all this will become a reality depends at the moment on how well Constock has solved the technical problem of how to contain methane at minus 260F, and prevent it from evaporating or escaping. Constock's approach is a "double flask"—an inner tank of aluminum and an outer steel container with the space between insulated by a 12-in. layer of balsa wood. It's necessary to keep the frigid methane from chilling the steel; ordinary steel becomes brittle and breakable at that low temperature.

There's a hazard involved—but knowledge of how to handle methane has come a long way since 1944, when more than 120 persons were killed in Cleveland when a methane storage tank split open. Coast Guard regulations now require methane to be stored in bottles on deck in protected areas—the Methane Pioneer is operating under a provisional permit. There's also a stiff entrepreneurial risk involved for Constock, for an unsuccessful venture would leave nothing behind but an oil slick—but Constock is confident it has the problem licked.


# Jets and Junkets Boost Travel

**More businessmen are finding excuses to fly to Europe in a record winter season. Sun and ski resorts do well, too.**

"He who does not maximize his expense account to give himself a business-vacation trip at times like these is unworthy to live in Westport"—so goes an old Madison Avenue proverb.

Many businessmen seem to have been heeding the proverb lately. Only at the peak of tourist seasons have the transatlantic airlines carried more passengers than in the last three months. In December, traffic on scheduled airlines between the U. S. and Europe was 27% above December, 1957.

• **Jets Attract**—Much of the increase can be attributed to the lure of jet flights. Since its jet service started Oct. 26, Pan American has carried some 26,000 passengers across the Atlantic in its Boeing-707s. On the average, 88% of the seats have been filled.

"There's a heavy turnover of bookings on the jets," says a Pan Am official. "Hundreds of people are making reservations several weeks in advance, then canceling about a week beforehand. But there are still more who replace them on the reservation lists."

It isn't only the jets that are pulling in the customers, though. Pan Am, still the only U.S. airline flying jets across the Atlantic, has also been carrying heavier loads on its piston-engined airplanes. Last month, an average of 72% of these airlines' seats were filled, compared with only about 55% in December, 1957.

• **Business-Pleasure**—It's this climb in the number of passengers carried on piston-engined airplanes that prompts at least one New York travel agent to guess that businessmen, who still make up the big majority of transatlantic travelers in the winter, are finding all sorts of reasons—which might not have been so important six months ago—to take a jet to Europe. And if they can't get on a jet, they take a piston-powered airplane, anyway.

Hundreds of them each month pack their ski boots along with their brief cases. American Express Co. estimates that 15,000 Americans will go skiing in the European Alps this winter and that perhaps half of these will be businessmen adding a few extra days to their European trips.

• **Where They Go**—This wintertime invasion of Europe may be a trend that will keep growing, just as Florida's summer season has grown in the last decade. But it's too early to tell yet. Meantime, the heart of the winter travel business still lies elsewhere than Europe.

The big spenders head for the sunshine. And here's a rundown on how business is in those places in the sun:

**Miami:** The next two months will be a time of tension in Miami Beach. While the tourists loll around playing gin rummy beside the swimming pools and playing the ponies at Hialeah, Miami Beach's hotel operators will keep a nervous watch on occupancy rates. If this season is to be a success for the beach hotels, they will have to start filling right about now and stay packed with customers through next month.

"And if the season flops," says one Miami money-man, "at least two dozen beach hotels will go under. . . . They haven't been able to recover from last year's disaster because this season—so far—hasn't been so good. But there's still time for them to make it."

Christmas business for most beach hotels was off 10% to 20%. The dip, operators say, was caused by strikes that halted publication of New York newspapers and operations on Eastern Air Lines.

Most Miami businessmen and hotel operators think now that the beach is overbuilt. New markets, they say, need to be tapped before any more hotels are built.

**Caribbean:** Miami hotelmen's troubles are as nothing compared to those of operators in the islands to the south. Revolution, tension, and sundry political coups in those islands have driven the tourists away. Cuba is nearly empty of tourists; in Haiti, hotels are not even 25% filled; in the Dominican Republic, occupancy of the hotels is only just above the 25% rate.

Dictatorships and politically unsettled islands have a hard time finding customers. But where there's peace and stability—even if there are no gambling casinos—there's plenty of business for Caribbean hotelmen.

Puerto Rico—no revolutions, no customs inspection—is booming, aided in part by a $90 round-trip fare from New York on economy flights. The Bahamas, hit by a hotel strike last year, are having a season that's just short of the 1957 record.

Over-all, the Caribbean tourist trade is running slightly behind last year. Late last year, American Express esti-

mated that 700,000 Americans would tour the area this year. But the total might fall a bit short of that. Most of them will still reach the islands by air, but more and more cruise ships are calling at the islands. And that bothers some of the islands' businessmen. Cruise ship passengers, they complain, don't use hotels and usually don't spend as much ashore as airplane passengers.

**Hawaii:** The Caribbean still draws its U.S. tourists primarily from the eastern half of the nation—Westerners in search of an island have Hawaii. And Hawaii is taking more and more of those Westerners. In 1952, Hawaii checked in 60,539 visitors; in 1957, the total jumped to 181,748, under a new, more comprehensive count. Last year it rose slightly to 183,610. Another small climb is expected this year.

Right now, Waikiki has some 4,000 hotel rooms (double what it had in 1953), and most of them are full. A few weeks ago, the crowds were so heavy that for a few days they overflowed Henry J. Kaiser's Hawaiian Village development (BW—Sep.14'57,p152), and some had to spend the night in the Kaiser Foundation Hospital.

**The Southwest:** Last year, Arizona's tourist business set a new record. This year, its numbers of tourists and the money they spend may climb as much as 20% over last year. Two new hotels have opened this season near Phoenix, and dozens of plush motels have added capacity.

One big factor in Arizona's gain this year is the weather. Texans make up a larger part of the tourists this winter because their own state has been gripped by several severe freezes.

• **Snow Resorts**—In sheer numbers of tourists, the sun can't compete with the snow in winter travel business. It's hard to pin down just how many skiers there are in the U.S. Some estimates put the total at 14-million, others at 4-million. And skiing equipment makers guess even more conservatively that the total is between 2.5-million and 3-million.

But it is pretty well established that the vast majority of skiers don't spend money the way sunhunters do. In New England, Canada, the Rockies, and California, skiers give mountain resort operators plenty of weekend business but, despite cut rates, comparatively few spend a whole week at a ski lodge.

In the Northeast, the skiing business is doing about 20% better than it did in 1957. (Comparisons with last year aren't valid, because there wasn't any snow when the season was due to start last year.) Ski resort operators in Eastern Canada can't remember when they've had it so good, and at some resorts about 85% of the customers come from the U.S. But California resorts have had a lame start to their season because of a lack of snow.

# Buy-American Fuss Bubbles

**When OCDM rejected English Electric's low bid to build turbines for a U.S. dam, industry and governments on both sides of the Atlantic renewed steaming over trade policy.**

The issue of when the U.S. government should "Buy American" and when it should buy competing foreign imports was pushed into the open this week by an electrical industry fight.

It all started when the U.S. government awarded a $1.5-million contract for two hydraulic power turbines for an Army Engineers' multi-purpose dam at Greer's Ferry, Ark., to a domestic company. Then the tempest broke. Everything but fists flew over the decision of Office of Civil & Defense Mobilization Director Leo A. Hoegh to award the contract to Baldwin-Lima-Hamilton Co. of Philadelphia despite a 19% lower bid by Britain's English Electric Co.

Hoegh based his decision on the fact that, in manufacturing turbines, Baldwin-Lima uses an important type of extra-large machine tool—called an "elephant tool"—that Hoegh ruled was needed for the U.S. defense program. Baldwin-Lima, said Hoegh, would go out of business if it did not get the $1.7-million Greer's Ferry contract, and the national security would be hurt if these elephant tools were lost.

• **Repercussions**—In angry rebuttal, English Electric Co. representatives in Washington recalled statements by Rep. Hugh Scott (R-Pa.), now a senator, during last fall's election campaign. These indicated he had advance information that Baldwin-Lima would get the contract even before the case went to the OCDM for a ruling.

Secy. of State John Foster Dulles, while defending Hoegh's ruling, deplored the timing. Chmn. Hale Boggs (D-La.) of the House trade policy subcommittee announced an intention to hold hearings on the case. In the past four years, says Boggs, Baldwin-Lima "has sold $21-million worth of equipment to the British National Coal Board alone."

British Ambassador to Washington Sir Harold Caccia filed a protest with the State Dept. In London, there was talk of British buyers curtailing American imports in retaliation. Radio Moscow cited the case as an example of U.S.-British economic "interdependence"—"the interdependence of a hungry diner and a beefsteak."

• **Buying American**—On the Greer's Ferry turbines, Hoegh ruled under the Buy-American Act, which covers government purchases only. The Buy-American Act gives domestic companies federal contracts unless foreign competitors' bids are at least 6% lower. If the domestic company is in an economically distressed area, the differential under the act is upped to 12%. But the act also contains a "defense-essential" criterion similar to Sec. 8 of the Trade Agreement Law, which allows federal agency heads complete discretion to ignore any low foreign bid on grounds of national security.

• **Industry Petition**—General Electric and the National Assn. of Electrical Manufacturers have pending before Hoegh's agency a broad petition, filed last March, for a finding that all heavy electric equipment is "defense essential" under Sec. 8 of the Trade Agreement Law, and that all competing imports should be curtailed or banned.

Ironically, the GE-NEMA petition concedes that competing imports of heavy electrical equipment are not destroying the domestic industry, though some industry executives admit they are bothersome. The GE-NEMA plea asks that imports be curbed on national security grounds because, they claim, foreign goods are less dependable than domestic equipment, harder to service in time of war and emergency, and less certain of delivery when needed.

• **Foreign Rivals**—The turmoil over the Greer's Ferry case has brought to a head the competition between domestic and foreign suppliers of generators, switch gear, transformers, and the like. This has been increasing in bitterness ever since foreign companies began penetrating the U.S. market in 1952. At that time, English Electric ended a tie-in with Westinghouse to invade the domestic market on its own.

In Buy-American cases since then, some contracts have gone to domestic bidders, others to foreign companies. Industry petitions for a general defense-essentiality ruling by OCDM have so far been turned down.

Under the new Reciprocal Trade Agreement Act extension last summer, however, OCDM is required to take into account new considerations in such rulings, including the over-all economic effect of imports on domestic industries and the domestic economy.

State Dept. staffers say foreign suppliers are determined to make a fight out of the Greer's Ferry case, as well as the GE-NEMA petition. They contend the U.S. has invited foreign bids, now is slapping them down even when they meet all requirements.

# Paying Health Costs of the Aged

**● The problem flares up, at a time when more people are living longer and medical expenses grow fatter.**

**● Chicago insurance company has big sales with a low-cost group hospitalization policy for over-65s.**

**● In Congress, a bill will seek to tie liberal protection onto Social Security benefits.**

The tough old problem of health costs for the aged hit the headlines this week. A Chicago insurance company captured attention with a high-pressure campaign to sell group hospital insurance for over-65s. And in Congress, a bill was being drafted that would provide extensive—and expensive—health insurance for all beneficiaries of Social Security.

The explosion of activity came from long pent-up steam. People live longer, so the number of over-65s is rocketing—more than 14-million now, with 21-million expected by 1975, and 27-million by the turn of the century. Many of them, after being covered by company hospitalization plans during their working years, discover that they are left naked of coverage when they retire. Many also discover—what should be obvious—that oldsters on the average have much bigger medical expenses than younger people.

• **Labor Pressure**—The unions, pushed by their ever growing army of retired members, demand action by employers, or the government, or somebody. But the unions seldom generate as much pressure in this direction as they do in seeking the aspirations of active, dues-paying members.

Programs for old aged health protection have active foes as well as friends. The American Medical Assn. is in the forefront, seeing "socialized medicine" under this bed, too.

Friends and foes alike had been quiescent until the last couple of weeks, when Chicago's Continental Casualty Co. broke out in a rash of full-page ads for its 65 Plus hospitalization plan. In a saturation drive in seven Eastern states, Continental sold group policies to 250,000 over-65s—including 50 centenarians. At the same time, Mutual of Omaha reported that its similar plan got an equally enthusiastic reception in a test drive in a four-state area in the South. Mutual predicted that 12 to 15 more companies would tag along "within the year."

• **All Comers**—Continental offered policies to all aging comers, regardless of medical history. Stripped down, its terms were hospitalization costs up to $10 a day for 31 days per confinement, plus up to $100 for lab costs and the like, and a $5-to-$200 schedule of surgical fees. The cost: $6.50 a month, with the company barred from cancelling policies or raising premiums except for the whole group.

Continental's plan was variously criticized as being inadequate and as being too generous. Generally, it was agreed that its benefits would merely ease, but not meet, the costs of protracted illness, and that the company's experience should provide valuable cost data for future plans.

Continental insists that 65 Plus is strictly designed as a money maker and not a "loss leader," and that it is not swallowing losses just to get "institutional exposure." The company says that its two-week to four-week selling drives, with group policies, limited targets, and saturation advertising enable it to cut deeply into that insurance bugaboo, acquisition costs—that is, the cost of selling the policy. On 65 Plus, it claims that "it will have amortized acquisition costs of the program by the end of the year."

• **Action in Congress**—On the legislative side of health programs, Rep. Aime Forand (D-R.I.) is busy drawing up the 1959 version of his bill to tack the insurance onto Social Security, and labor has promised its support. A year ago, Forand tried a very sweeping bill, which was allowed to expire in committee. This time, he plans to ask less, and is getting more of a hearing.

Essentially, Forand's upcoming bill would cover all Social Security beneficiaries for:

• Hospital charges for up to 60 days each year.

• Some surgical expenses.

• Nursing home costs for 120 days for patients who had previously been hospitalized.

Foes of the bill are already rallying, with their fire zeroed in on the nursing home salient. Says James Stuart of the Blue Cross Assn.: "Just think of all the families that will rush aged relatives into nursing homes at the government's expense." That loophole, and a general dearth of actuarial experience, makes it hard to guess what the Forand bill would cost. But everyone agrees that cost couldn't be less than $1-billion a year to start and a lot more later. Costs would be split, like the rest of Social Security, between employer and employee.

• **The Prospects**—The insurance industry tends to think of the 1959 Forand bill as a frightening nightmare, whereas it dismissed the broader 1958 version as a socialist pipedream. Trade observers think he won't push it too hard this year, but will reserve his heavy guns for 1960 and the Presidential campaign. They point out in his favor that he is now No. 2 man on the Powerful Ways & Means Committee, that welfare-minded congressmen were elected in batches last fall, and that there is a tendency to extend Social Security in every election year.

The unions, of course, are backing Forand, but just how strongly is moot. One consultant remarks: "Getting coverage for retired workers would cost 2¢, maybe 2½¢ an hour. But that 2½¢ has to be weighed against all the other demands of the members. When it comes to a decision, the leadership isn't likely to listen to the guys who have stopped paying dues." Up to now, AFL-CIO has tried to get the government to help the retired worker—without using up any of its own bargaining power.

• **Lower Fees**—On the against side are the lobbies of the AMA and the insurance industry. AMA has even tried to ease the pressure by asking doctors to prune fees for the over-65s. As the AMA hates socialized medicine, so does the insurance trade hate socialized insurance. As one counter move a few big life insurance companies have begun writing non-cancellable policies on healthy persons up to 60, or even 65. In the 10 areas where Blue Cross has unlimited membership, the elderly can get low rate hospital coverage.

In business generally, companies that offer paid-up life insurance to employees are sometimes allowing the workers to tap the policies for medical expenses. But that, of course, shrinks the death benefit.

Quite a few companies are looking into possibilities of post-retirement coverage for employees. One outfit that tried it offers this experience: "We figured if we don't do it, the government will. Contrary to what you might assume, our program is not costing us a lot. For one thing, we've had medical control over these employees for years, so that we aren't carrying bad risks that we might have to under a federal program."

# In Business

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## Canadian Airline Cracks Monopoly

## Gets One Trans-Canada Flight a Day

Globe-circling Canadian Pacific Airlines, subsidiary of Canadian Pacific Ry., finally achieved last week its long-sought goal—it cracked the 20-year monopoly of the lucrative cross-Canada air route held by government-owned Trans-Canada Air Lines (BW—Mar.15'58,p63).

But, free-enterprising CPA got only one finger in the crack. **Canada's Air Transport Board gave it permission for one return flight daily from Vancouver to Montreal, with stops at Toronto and Winnipeg, instead of the five daily trans-continental flights CPA had asked.**

CPA, which just managed to squeak through in the black in 1958, has always looked with frank envy on the high-density, cross-Canada runs. But privately, it's pleased with even its fractional victory, which links its eastward and westward international runs.

Trans-Canada was created as a government line by the former Liberal regime, and the Conservative opposition promised relief for CPA and open competition. But the Diefenbaker regime, once in power, bolstered by an economist's report (BW—Jul.12'58,p38), cut CPA's dreams down to size in carrying out this pledge.

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## Richfield's Underground Atom Blast

## For Oil Shale Nears O.K. by Canada

Richfield Oil Corp. this week seemed well on its way to getting permission by the Canadian government to set off a small atom bomb 1,200 ft. below ground in its tar sand holdings at Lake Athabasca.

**Richfield is one of several U.S. companies that want to find whether the heat of an underground A-blast will release oil now locked in shale deposits** (BW—Oct.4'58, p46). Dr. John Convey, head of the government "feasibility committee" set up to study Richfield's plan, now says he hopes the first bomb will be set off next winter.

Meanwhile, AEC and the Bureau of Mines in Washington hope to set off **underground blasts in Colorado** late this summer as part of Project Plowshare, the U.S. program to develop peaceful uses of the atom. But industry observers are still wary lest atomic development remain a pawn of the cold war (BW—Jan.17'59,p34).

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## CAB "Blesses" Airline Mutual Aid,

## May Approve Hike of All Jet Fares

The "mutual assistance" pact under which a strike-bound airline gets financial help from carriers that are still flying has the qualified blessing of the Civil Aeronautics Board.

**CAB says the pact, which has been attacked by organized labor, "is not adverse to the public interest."** Both labor and management are concerned over possible application of the principle to other industries. The struck airlines would be paid by other carriers to which their traffic had been diverted.

**CAB is speeding its study of whether higher fares are justified for jet airline service.** An about-face last week indicated the answer will be "yes" for both coach and first-class seats. Reversing a decision made a few days earlier (BW—Jan.24'59,p38), the board said American Airlines could slap a $10 surcharge on both coach and first-class tickets for jets, instead of just first class.

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## Comeback for Electric Auto

The simplest and quietest auto ever developed—the electric—will try a return engagement in April when Stinson Aircraft Co. delivers 500 of its Charles Town-Abouts for use by meter readers of the San Diego electric utility. In July, another 500 will have a similar test in Atlantic City.

The $2,000 Town-Abouts can do 58 mph., with a 77-mile range after an overnight off-peak charge from a 110-volt outlet. In many areas, **operating costs might be lower than with gasoline;** utilities estimate that 25,000 of the cars in an area would mean annual power sales of $1-million.

• • •

## High Court Lets Two Rulings Stand

The Supreme Court allowed these decisions to stand:

• Three food suppliers—General Foods, Hunt Foods, and Morton Salt—violated Robinson-Patman by advertising in Woman's Day, then owned and distributed by A&P, without making proportionately equal payments available to competing retailers. The reasoning: A&P, as owner of the magazine, in effect got a rebate from the suppliers.

• Philco may challenge renewal of radio-TV station licenses in Philadelphia held by NBC. Even though Philco does not broadcast, FCC must now consider its efforts to disqualify NBC as a station operator on these grounds: Special mention of RCA—which competes with Philco—on NBC stations gives RCA a competitive advantage.

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## All's Happy at Crane Co.

Crane Co. management has averted a possible proxy fight by adding four new names to its slate for next year, raising the board from seven members to 11.

Two of the additions are Thomas Mellon Evans, chairman of H. K. Porter Co., Inc., and Alfons Landa, president of Penn-Texas Corp., who has indicated they might fight for seats (BW—Jan.17'59,p36). The other newcomers are E. A. Locke, Jr., president of Union Tank Car,—who is thought to be the choice of Gurdon Wattles, Crane director and chairman of Electric Auto-Lite, which owns 13% of Crane stock—and Robert Crane, of the founding family.

The SS Edward L. Steiniger, named for Sinclair's president, speeds out for another cargo.

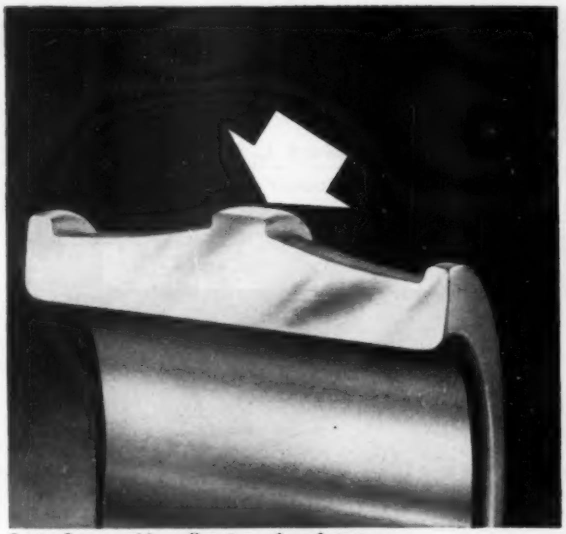
# A Capital Ship for a Profitable Trip

*"The finest work horse in the Sinclair fleet"* is the way W. N. Damonte, manager of marine operations, describes this new 44,000-ton tanker. A high-speed ship, with no frills, she was built with one thought in mind — rock bottom per-barrel carrying costs.

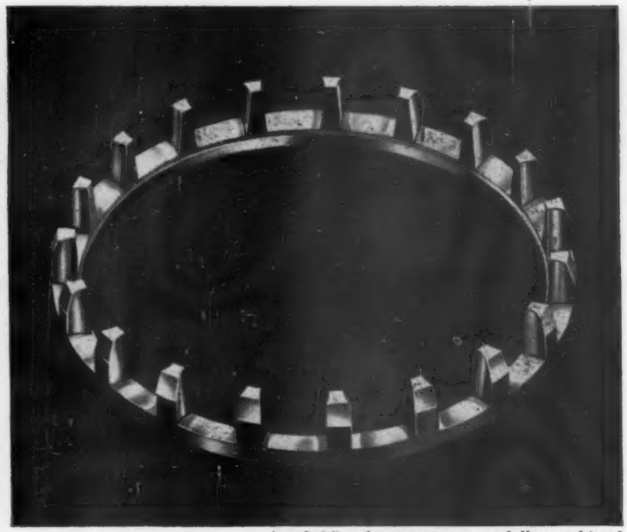
The Edward L. Steiniger brings to almost half a million tons the cargo carrying capacity of tankers serving the integrated Sinclair organization. These ships provide the economical transportation so essential to a business dealing in a bulk commodity such as petroleum. Tailored to the special requirements of the Corporation's domestic and foreign operations, these tankers contribute markedly to Sinclair's profitable growth.

**SINCLAIR**
*A Great Name in Oil*

SINCLAIR OIL CORPORATION • 600 FIFTH AVENUE • NEW YORK 20, N.Y.



Center flange guides rollers to peak performance.



Land-riding bronze cages are fully machined.

Roller diameters are matched electronically within .0001".

# *Consider every design feature and you'll choose Torrington!*

Torrington has compromised none of the operating design features of its Spherical Roller Bearing, because application experience has proved them essential to superior bearing performance.

There's no substitute for the stabilizing effect of the integral center guide flange. Torrington's asymmetrical roller seeks this flange under load. Skewing and stress concentrations are eliminated. Every roller carries its share of the load, for roller diameters are matched electronically within .0001" for even load distribution.

Rollers are precisely spaced by fully machined land-riding bronze cages that withstand even the high stresses of eccentric service. Two independent cages, one for each row, prevent roller drag and side stresses under thrust loads. Size-stabilized races prevent "growth" or change in dimension in service.

These features mean a cooler-running, longer-lasting bearing. When you buy bearings, look into *every* detail, and you'll choose Torrington. **The Torrington Company, South Bend 21, Ind.—and Torrington, Conn.**

**TORRINGTON BEARINGS**

*District Offices and Distributors in Principal Cities of United States and Canada*

Superior performance features of
TORRINGTON SPHERICAL ROLLER BEARINGS:

- Integral guide flange for roller stability
- Asymmetrical rollers seek flange for positive guidance
- Electronically matched rollers
- Size-stabilized races
- Fully machined land-riding bronze cages
- Controlled internal clearances
- Even load distribution
- Inherent self-alignment
- Long service life

Send for new Spherical Roller Bearing Catalog No. 258

**SPHERICAL ROLLER • TAPERED ROLLER • CYLINDRICAL ROLLER • NEEDLE • BALL • NEEDLE ROLLERS • THRUST**

# WASHINGTON OUTLOOK

**WASHINGTON BUREAU**
**JAN. 31, 1959**

**A BUSINESS WEEK SERVICE**

**You now have the buildup for the Eisenhower-Congress showdown.**

With Congress less than a month old, the situation holds every promise of being a rather spectacular affair—something that will busy historians for years. Developments during the week support this. Furthermore, they indicate that businessmen will be subjected to more than the usual political pulling-and-hauling.

**Start with the GOP at Des Moines.** Republican leader Alcorn came right out and said the GOP is tied too tightly to business.

**Pres. Eisenhower** called on his party to get out and work all the time, not just in election years.

**Simpson of Pennsylvania,** a veteran GOP House leader, immediately wanted to know whether Eisenhower, himself, would participate in this program and help spell out party aims to bring voter support.

**Goldwater of Arizona,** one of the few GOP senators who survived the Democratic flood in November, urged his party to stop trying to be a sort of New Deal, and thus to give the voters a real choice.

—•—

**The diversity of views is reflected here in Washington.** Eisenhower is giving every indication that he will back his balanced budget to the limit. In fact, his whole legislative program, now unfolding, is keyed to the theme of fiscal responsibility. This week, many of his points are running head-on into collision with Democratic proposals, many of them wearing what has come to be called the liberal label—a higher price tag.

—•—

**The new farm program is an example.**

**Eisenhower isn't happy about his message.** It's vague, with many key details left up in the air. He had hoped to be precise, but—

**A backstage dispute developed,** between Agriculture Secy. Benson and Budget Director Stans.

**Stans wants a ceiling on farm price props**—a law that says the government can spend so much and no more to support the prices of corn, wheat, cotton, etc. That would ease his bookkeeping job and make it clear at the start of the year just how much farm programs would cost.

**Benson says it won't work.** He wants to follow along with his own program of reducing price supports and easing acreage controls. That program has been costly over the past several years, both in dollars and in GOP farm seats. But it's still what Benson wants. He sees Stans' plan as having some money-saving possibilities but at the cost of a tremendous political liability in 1960.

**The Democrats will offer a substitute.** It hasn't been firmed up, yet. The idea of the political strategists is to give the farmers something big in the way of price supports. It will be costly, but, the Democrats reason, Eisenhower will veto it. The end result will be that the White House will be stuck with what it now has, and with angry farmers next year.

—•—

**The Democratic Congress will ignore Eisenhower on labor.** The plan

WASHINGTON BUREAU
JAN. 31, 1959

is to go ahead with the mild Kennedy bill, which came close to passing last year. The Kennedy measure is O.K. with most big union leaders.

**A veto is threatened.** Republican White House advisers argue that there is no use in accepting a weak union cleanup bill. The unions won't support the GOP, under any conditions. A veto, on the other hand, as the argument goes, would help establish in the public mind the big union influence in the Democratic Party—the payoff, so to speak.

—•—

**The spending clash is building up on several fronts.**

**Eisenhower is weakest on defense.** Odds are he will take whatever the Democrats vote over his own $40.9-billion. He can control the outgo. A veto of such a major appropriation bill has few precedents.

**Aid for airports is in a different category.** Odds are that the President will send this Democratic bill back—veto it.

**So is the Democratic housing program.** This is a case where the Democrats will pass a second bill, if they can't override a veto.

**Urban renewal is in the same boat.** Eisenhower will take a little. But he won't take the billions Democrats back.

—•—

**What's being done to build up a veto bloc**—a GOP-conservative Democratic coalition to back the President?

**White House advisers say "nothing."** In fact, the men who work closest to the President insist that the veto decision will be left entirely up to Congress, with no White House influence exerted at all. It could happen that way; the White House has shown ineptness in the past. The best guess is that before the first real test comes, "educational" work will be done. The President can use federal jobs to get Democratic as well as GOP backing.

—•—

**Note the Treasury's tax staff**—the changes made lately. There will be no general relief bill this year. But Eisenhower is thinking about major reforms next year. Here are the top men, at the thinking level:

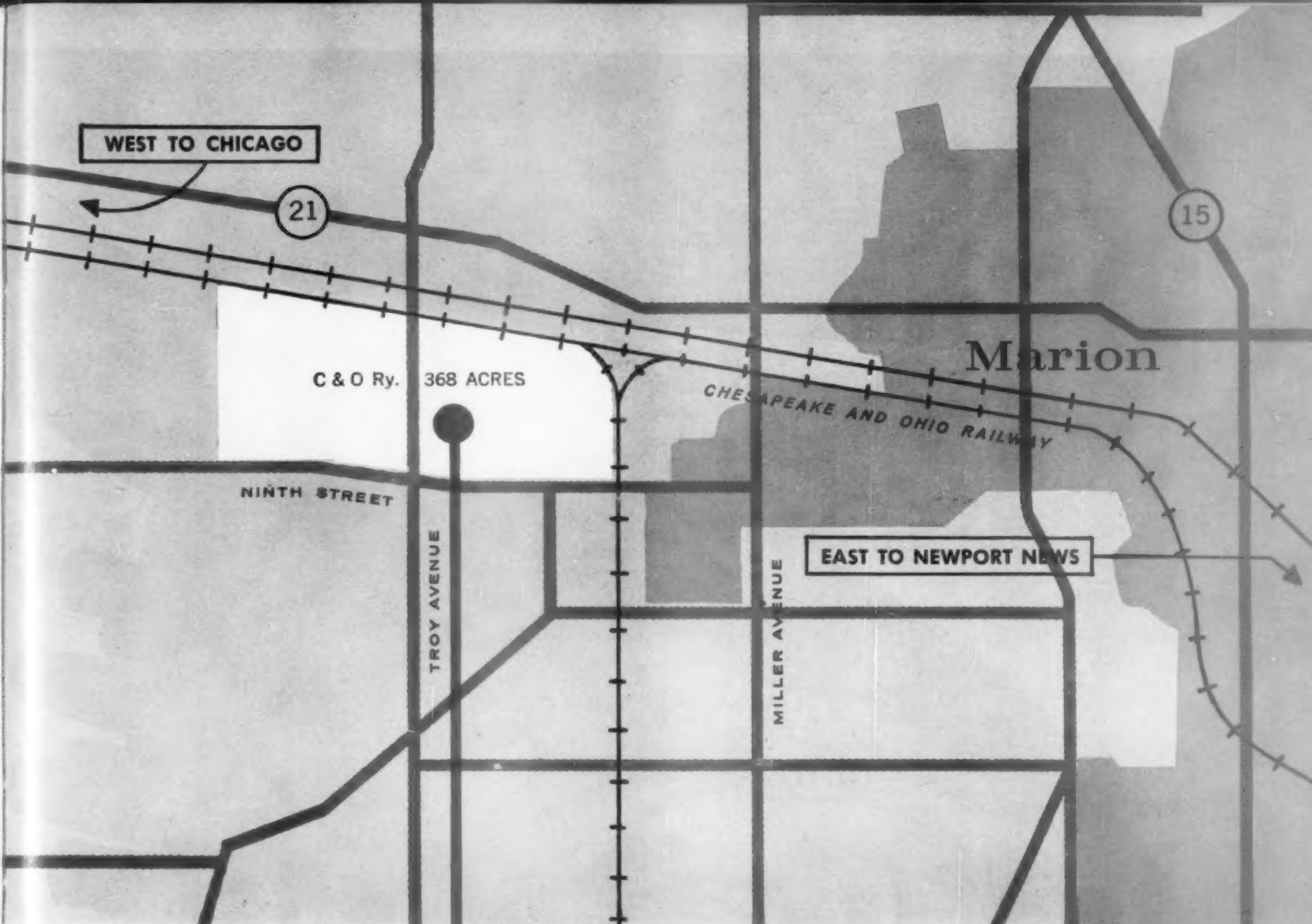
**Fred C. Scribner,** Treasury Under Secretary. He takes over from Dan Throop Smith, now resigned. Smith was Anderson's deputy for tax policy. Now that top job goes back to the Under Secretary.

**David A. Lindsay,** head of the department's legal advisory staff, will take over Smith's liaison duties with Congress. In this capacity, Lindsay will be the contact man with the Ways & Means and Finance Committees.

**Henry Wallich,** former Yale professor, also figures in the tax picture. He is a special assistant to Anderson. The ideas of the department's researchers will filter through Wallich and Lindsay to Scribner.

—•—

**Inflation note:** Eisenhower advisers see a stable price trend until next summer. Then, they fear that the combination of the steady recovery from the recent slump, plus new wage contracts, especially in steel, will give a fresh lift to living costs. The President wants no direct controls. The result may be a decision to take another crimp in the money supply, with borrowing costs moving into new high ground, just ahead of the 1960 elections.




**CHOICE INDUSTRIAL SITE**

# 368 acres at Marion, Indiana

Marion is a friendly city of 35,000 just about midway between Chicago and Cincinnati. Larger plants in the immediate area include Anaconda Wire & Cable, Dana Corp., Delta Electric, Foster-Forbes Glass, General Motors, General Tire & Rubber, Owens-Illinois Glass, Paranite Wire & Cable Div. of Essex Wire Corp., RCA. There is a good supply of skilled labor, and labor relations have been exceptionally good.

The site shown above is just outside the Marion city limits, on the Chesapeake and Ohio Railway tracks, and is open to reciprocal switching. It is practically level, has good drainage, and is zoned for heavy industry. All utilities are available.

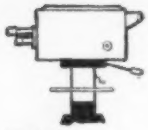
Complete Industrial Surveys of this and other Indiana sites are available to interested companies. Inquiries are handled in complete confidence and without obligation. Address: Wayne C. Fletcher, Director of Industrial Development, Chesapeake and Ohio Railway, Huntington, West Virginia. Tel.: Jackson 3-8573.

## Chesapeake and Ohio Railway

SERVING: Virginia • West Virginia • Kentucky • Ohio
Indiana • Michigan • Southern Ontario


PAN AMERICAN
Discover the difference in Sylvania...
Sylvania light bulbs for the home are made by the company that pioneered many firsts in lighting.
Sylvania Silver White Mercury Lamps give you 22% more light than other types.

# NETWORKS: Halfway through the big program season, they face these problems



**TV . . .**

**big brother under pressure**

- 15 evening shows—such as Jackie Gleason, Ed Wynn, and Eddie Fisher—already dead or to get ax.
- Government forces nets to abandon some operating practices, others come under attack.
- More investigations—of ratings, multiple station ownership, licensing—on the way.
- Program critics become more vocal — even from within the industry itself.

**RADIO . . .**

**can the nets justify their existence?**

- These advertising figures show what's wrong:

| | 1950 | 1957 | 1958 (est.) |
|---|---|---|---|
| Network | $196.3-million | $ 66.6-million | $ 65.0-million |
| National spot | 135.8-million | 193.2-million | 200.0-million |
| Local | 273.3-million | 362.7-million | 365.0-million |

- Nets operating at a loss; try new tactics, such as CBS-Radio's Program Consolidation Plan which includes sharp cut in network programing.
- Competition from companies springing up to compete with networks' function of supplying programs to stations poses added threat.

# How Nets Are Working Them Out

The table above summarizes some of the formidable challenges that TV and radio networks face as the 1958-59 program season reaches the halfway point. But the issues that confront network TV and network radio derive from almost contrary circumstances.

The three TV networks—American Broadcasting Co., Columbia Broadcasting System, and National Broadcasting Co.—have experienced a decade of tremendous growth that has thrust them into a commanding position in the broadcasting industry. Their problems involve pressures aimed at changing the patterns that up to now have been working successfully for them.

Conversely, the radio nets—the three companies already named plus Mutual Broadcasting System—have suffered serious setbacks.

A look at developments in both fields brings the issues into focus.

## I. The TV Picture

Network TV is emerging from the recession in healthy shape. While newspaper and magazine revenues sagged, network revenue totaled about $720-million last year, 9% higher than previous year. Network billings for the first 11 months of 1958 rose to a record $512.6-million, about 10% above the comparable 1957 period. The nets aren't out of the recession yet, due to the lag in contract commitments made last year. They still have 16 unsold half-hour segments, compared with 28 half hours of unsold time last August (BW—Aug.9'58,p47).

• **New Confidence**—Figures like these reveal that the networks have maintained a brisk pace. Oliver Treyz, ABC's young president, says, "We have cleaned out all our deals, our special concessions, and profits are improved." Similarly, Louis G. Cowan, president of CBS TV network, points to his company's nine-months' statement showing the highest earnings in its history. The over-all signs bear out Cowan's estimate that the whole industry did well.

This air of confidence contrasts sharply with the obvious concern of last fall. Now, network leaders are optimistic about this year's prospects. New business is coming their way. Last week, Kellogg Co. signed a 52-week program contract at CBS; NBC put Helene Curtis, Inc., under contract; and ABC brought Massey-Ferguson, Inc., into TV for the first time.

• **Snags**—But even as they make future plans, networks admit to some problems that, to a large extent, are products of the success they enjoy.

Programing to serve TV's voracious demand for new material forms a crucial area. Mortality among programs—any network's main source of strength—is severe. Already, the three nets have dropped 15 shows from their evening schedules, a record number of failures so early in a season.

An immediate cause of the current wave of cancellations is the recession-inspired insistence by advertisers last fall on short-term commitments. But behind this is TV's growth itself, with the consequent skyrocketing costs of sponsoring programs. Under cost pressure, advertisers demand fast results in terms of large audiences.

• **Criticism Bites**—A consequence of this pressure is a strong trend to dupli-

cate successful shows, in the hope of avoiding flops. Currently, eight of the top 10 shows are Westerns. Altogether, the networks include 28 such shows in their evening schedules.

Critics continue to lash the networks for the sameness of most programing and its trivial content. Now, within the industry, spokesmen such as news commentator Edward R. Murrow and ad agency presidents such as Emil Mogul and John P. Cunningham have uttered harsh words about what Cunningham calls "the plethora of pallid and repetitive programing."

So far, such criticism has hurt only the networks' feelings. They point out viewing is up, with big audiences watching the shows the critics deplore. Set ownership is up and ad agencies, despite cutting remarks, are not rushing to sponsor culture.

• **Pressures**—On the other hand, networks fear that so much criticism will weaken their ability to resist attacks from Washington. Last month, both CBS and NBC yielded to pressure and abandoned the practice of "must-buy" requirements. These requirements stipulate the minimum number of stations an advertiser has to buy in order to advertise over the network. Now government attack is centering on an even more crucial practice—option time (the number of hours in the broadcast day, specified in a network-station affiliation contract, that a station must make available to the network for programs).

Last week, the Federal Communications Commission decided that option time is legal and necessary. In doing so, it disagreed with both an FCC staff report and the Justice Dept. who say the practice probably violates antitrust laws. Many industry observers believe that Justice will file suit this year to end option time.

The option time arrangements give networks assured access to station time during the most popular viewing hours. Should this access be limited, plenty of other program packages are waiting to move in with a direct approach to stations. And the development of videotape recording as a superior means of distributing shows makes the danger even more acute.

Along with option time problems, the nets also face trips before investigating committees in Washington. Next month, for example, the Senate Commerce Committee opens hearings on network use of rating systems in programing.

## II. Radio Static

While TV nets cope with growth problems, their blind radio cousins are scrambling to find a new place in the sun.

In the face of over-all radio growth,

***". . . many feel radio has more excitement and punch in many areas than its more timid relation . . ."***

**STORY starts on p. 42**

the networks are losing millions of dollars a year. Two of them—ABC and Mutual—have faced extinction in the past two years. Many industry observers say privately that no matter what the nets do, there won't be enough to support four radio networks.

Despite such burdens, the radio nets are selling hard, and except for NBC radio, are retrenching in an effort to save what they can.

• **Cutting Back**—CBS-Radio's Program Consolidation Plan illustrates what is happening. Under this plan, adopted last month, CBS gives its affiliates programs on which they may sell time—in return for specified hours in which the network may program and sell its own shows. The plan also calls for a sharp cutback in network programing.

A basic purpose of this plan, other than cost cutting, is to get programs accepted (or "cleared") on affiliated stations. As big entertainment moved out of radio into TV, many stations decided they could supply their own needs in the form of a diet of music and news. CBS hopes that by making less demands on affiliates' time it can assure acceptance of its remaining shows.

NBC is trying a different route. Following Chmn. Robert Sarnoff's recent affirmation of faith in network radio, the net is adding new shows.

For stations that want programs without the expense of a network affiliation, several new companies have appeared—including International Transmissions, Inc., and Radio Press—to sell news services on a fee basis.

• **High Cards**—Radio network leaders are optimistic about the future. ABC's Vice-Pres. Edward J. DeGray says that his network "will begin 1959 with the brightest prospects in the past five years."

CBS-Radio Pres. Arthur Hull Hayes says that since the inception of his PCP, CBS has signed up \$4-million in new business. NBC reports \$7-million network sales since November.

The radio networks point to what is undeniably a strong card—their leadership in news gathering, reporting, and analysis, their big names and personalities. The furor over Edward R. Murrow's broadcast "The Business of Sex" bears out what many people feel—that radio has more excitement and punch in many areas than its more timid relation. **END**

# Price Cutting . . .

**. . . by retailers is creating such havoc that manufacturers are taking drastic steps to stabilize prices.**

In quick succession, important manufacturers of consumer durables have taken steps to curb retail price cutting. The passing of fair trade as a workable device (BW–Mar.8'56,p26), the rise of the discount house, plus the relentless flow of goods, have brought chaos to the retail price picture. Consumers on the lookout for goods have faced not one or two, but three, four, or five prices of the same product.

Manufacturers are swinging to the view that such chaos not only shrinks profits. It develops such a state of confusion in the consumer's mind that a would-be buyer may just call the whole thing off. Belatedly, some retailers think, manufacturers are trying to bring order into the chaos.

• **Tactics**—They are not all trying the same tack. Some are going the route of withholding cooperative advertising from dealers who advertise at too low prices. Some are trying more direct distribution channels. Some are cutting prices—and profit margins—all down the line. In at least one case, the explicit purpose is to substitute for profits via high margins profits via higher turnover—the basic discount house concept. Underlying all the moves is a more or less tacit admission that the retail price has often been unrealistically high.

Here is a rundown of what has happened:

• Sunbeam Corp. late in December announced its experimental plan of selling through distributors on consignment in the western market (BW–Dec.20'58,p87). It established floors below which its franchised dealers may not advertise prices.

• Two weeks ago, General Electric Co.'s Housewares & Radio Receiver Div. also set a floor on advertised retail prices; the company will not pay for cooperative advertising that goes below this floor.

• Last week, Schick, Inc., announced a new, direct factory-to-retailer program, pared its electric shaver prices substantially.

• Last week, distributor Graybar Electric Co. started a test plan in California for Hotpoint appliances. The plan allows dealers to display Hotpoint appliances for a charge of $2 a month for each unit instead of buying the merchandise outright.

• This week, Benrus Watch Co. launched a new line of $25 watches



with a three-year guarantee, whacked down margins on it to the point where, it hopes, substantial price cutting won't be feasible as in the past.

• **FTC Steps In**—Ironically, on the eve of Benrus' announcement, the Federal Trade Commission took a step that sheds some light on what all the excitement is about. It charged Benrus with such false pricing practices as representing a packed advertised price as the regular price; allowing trade-ins, then upping the price of the new watch; misleading guarantees, and the like.

S. Ralph Lazrus, Benrus president, obviously aghast at a timing that threatened to blow a long-planned campaign sky-high, has little to say in comment. He prefers to argue his case in the courts, he says. But in explaining the background for his new policy, he conceded that a price situation had developed in watch distribution that was bad for everyone concerned, and that it was time manufacturers took corrective steps.

A few months ago, FTC cracked down on the retail angle by tightening up on comparative pricing ads, called new attention to the evils of bait ads, phony claims, and the like (BW–Oct. 18'58,p34).

• **Two Approaches**—The moves cited above represent two basic approaches to the problem of putting back profitability into distribution.

The first and more conservative approach is that of General Electric. GE is simply telling its dealers, "You may charge any price you want at the store. But we do not have to pay for advertising of prices that go too far below the point of reasonable return."

At first glance, this appears to be a move to stabilize prices upward. Yet, by allowing advertising on some of its products at a stated percentage below list, GE appears to concede that the suggested list price may in some cases be wide of the competitive mark. The permissible minimum varies, depending on the turnover of the item.

Sunbeam's approach was much the same, only its penalties are stiffer. What dealers charge at the store is their business. But a dealer who advertises below what Sunbeam considers a reasonable discount from suggested list (it averages around 15%) may lose his franchise. But Sunbeam also went further than GE. In its West Coast test, it no longer sells outright to its distributors. It sells through them on consignment. This gives Sunbeam control over price to the retailer, and plugs one point—the distributor's price to retailers—where price cutting could leak through.

The plan has some risks. Obviously Sunbeam cannot sell in one market one way indefinitely without applying the same tactics broadly. If the plan doesn't move goods, Sunbeam could be left

# The man with the $75,000,000 shoes

(A true story)

THE YEAR WAS 1924. Across the desk from a lending officer at The First National Bank of Chicago, a young man was explaining why he believed he could start a successful business.

He knew the shoe business and felt he had the experience to strike out on his own. As the bank officer listened, he sketched out some of his ideas about organization, styling and merchandising. And for 1924 some rather daring ideas they were. All he needed to put them into operation was $10,000.

The banker who interviewed the ambitious young man was no stranger to the shoe business, himself. As an officer of Division G here he had been trained to serve the industry. Division G had been created 19 years earlier to do just that. So he listened and understood, occasionally asking some pointed questions. At the end of the discussion, the young man got his $10,000.

He made his dream come true—and then some. From an obscure little factory producing 240 pairs of shoes a day, his company—now a bank customer for 35 years—has grown into a firm worth $75,000,000. You, yourself, may be wearing a pair of his shoes, for his brand-names are some of the best known in the world.

This is an exceptional success story, it's true, but it demonstrates one of the basic advantages of being a customer here. Officers in the ten Divisions of the Commercial Banking Department offer a particularly knowledgeable and understanding service. For each Division serves one group of industries, exclusively and its members constantly study and interpret specific industry trends. This highly specialized activity results in a clear view of a businessman's problems and ambitions. The officers here speak their customers' language.

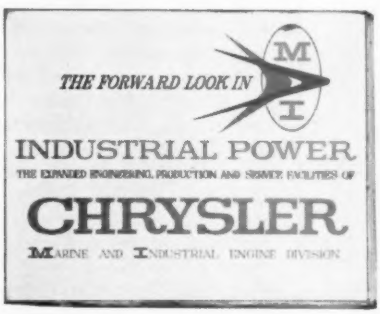
Whether you make shoes or shovels, one of our men can give you the type of banking service you want. Write, call or come in person. The bank is ready to serve you.

**The First National Bank of Chicago**

Building with Chicago since 1863 MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

# *Chrysler Industrial Engines*

***THE FORWARD LOOK IN INDUSTRIAL POWER***




***These new developments, plus the Hidden EXTRAS of Chrysler industrial engine supply service, have been detailed in a new brochure "The Forward Look in Industrial Power." It will be of extreme interest to power equipment manufacturers. A request on your executive letterhead will bring your copy.***

**CHRYSLER** M I

**MARINE AND INDUSTRIAL ENGINE DIVISION**
CHRYSLER CORPORATION • DETROIT 31, MICHIGAN

Lift Trucks
Loading Machines
Mobile Cranes
Motor Coaches
Orchard Sprayers

Petroleum Pumps
Pulp Machinery
Road Pavers
Road Rollers
Scoop Tractors

Shovels
Snow Mobiles
Street Sweepers
Winches
Yard Cranes

with a large and expensive inventory bag.

• **Hotpoint Plan**—Graybar will not spell out the details of its California test. It denies that this is consignment selling, calls it rather a device to get floor display. It is not clear how far the plan goes, but it appears to have some of the earmarks of consignment selling —except that, by charging the retailer $2 a month for displaying a Hotpoint unit, it stands to minimize the inventory risk of a straight consignment plan.

Schick has gone further than Sunbeam by eliminating some 1,200 distributors altogether in favor of direct selling. And with Schick, there is an indication of the second, bolder approach to the problem. It has cut prices, and its own and its retailers' profit margins. On its best-selling razor, the new retail price is $22.50, down from $31.50. This is a clear—though not explicit—shift to the view that profits in dollars—from bigger turnover —mean more than profits expressed as a percent of sales.

• **Benrus' Answer**—Of all the companies taking action Benrus is most articulate. S. Ralph Lazrus pointed out that the watch business has been off substantially since 1954. Partly this is the result of the price wars, the emergence of the discount house, and the aggressive low-priced manufacturers and retailers. Consumers buy watches infrequently, Lazrus explained, and they know little about watches. They have to have confidence in both manufacturer and retailer. The price-cutting binge destroyed that confidence.

Benrus' answer is a complete change —what Lazrus calls a "bold, and possibly expensive" step. On the new line of watches, both Benrus and its retailers are taking a "substantial" cutback in margin.

But—and it's the key to the whole policy—Benrus is confident its dealers can recoup the loss by increased sales. Turnover has become the word. Benrus is now preaching that it's not profit margin that counts—it's "how many times turnover happens."

Benrus insists that the new line represents more value at less price than it has ever offered before. It is backing up the line with $2-million worth of promotion.

Such a program, the company feels, will make it nearly impossible for a discounter to discount further. This should build business for the conventional watch dealer. Benrus hopes the rest of the industry will do the same.

Significantly, Lazrus says few retailers have complained about their smaller percentage markup. GE found not a dissenting voice when it proposed its plan. Retailers are as fed up with price competition as manufacturers. END

# Why Joe Cannon's men idolize him

1.


The warmest hearted boss in town, Joe Cannon ran his shop
Upon the principle that happy men are hard to top.
Each man enjoyed good wages, bonuses, a long vacation—
All solidly protected by a Travelers Group foundation.

2.


As Travelers' man expounded when Joe got him on the phone:
"Group Major Medical insurance forms the cornerstone.
I've seen too many cases where a working crackerjack
Cannot produce if doctor bills are piling on his back.

3.


"A man recoups in time, but as you've probably discovered
A bank account is years in getting healthily recovered."
Said Joe, "Group Major Medical with Travelers—good advice
To keep my loyal workers off of thin financial ice."

4.

His men have solid reasons for their deepening affection:
Joe's generosity is backed by Travelers' sure protection.
Group Major Medical with Travelers—what a noble plan!
You, too, can earn a medal—call a trusty Travelers man.

AMERICAN FAMILY INDEPENDENCE THROUGH THE TRAVELERS

**THE TRAVELERS**
**Insurance Companies**
HARTFORD 15, CONNECTICUT

*All forms of business and personal insurance including Life • Accident • Group • Fire • Marine • Automobile • Casualty • Bonds*

# In Marketing

• • •

## People Still Save for Rainy Day, But Many Also Save to Spend

Longer lives, burgeoning families, as well as the perennial fear of a rainy day, appear to be prime boosters of consumer savings.

This is the finding announced by the Inter-University Committee for Research on Consumer Behavior. It was based on a study by the committee's Consumer Savings Project, directed by Robert Ferber, of the University of Illinois. The report stemmed from intensive interviews of 206 consumer saving units in St. Louis last summer.

**Nearly everyone (98%) cited provision for old age as an incentive to save. Rainy-day emergencies came second, with 60%; children's education ranked third, with 44%.** Only 29% were saving to leave an inheritance to children; 18% had a particular purchase in mind—such as a car or furniture; another 17% aimed at buying a house; the same number were saving for a trip or vacation.

A great majority considered savings a necessity. About one in 10 give it priority "under almost any circumstances."

On the important question of how free people feel to draw on savings, about one-third felt savings should be used only in emergencies or not at all; another third would add big-ticket purchases as a legitimate use; the remaining third, especially among younger people with incomes under $7,500, felt savings are to draw on whenever it becomes necessary to supplement income.

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## Shoppers Usually Come Out Ahead With Trading Stamps, Survey Shows

Last week was a week of pluses and minuses for trading stamps.

The big plus was the finding of the Dept. of Agriculture, based on a 21-city survey of the Bureau of Labor Statistics. The conclusion—cautious enough: Retail prices of food sold in chains that give stamps rose 0.6% more than prices in nonstamp stores between November, 1953, and March, 1957. But, the survey said, again cautiously: **"It would appear that on the average, in the 21 cities studied, consumers who save and redeem stamps can more than recoup the relative price difference."**

From the retail viewpoint, the survey found that sales of stamp-giving stores rose faster in the period, but profits declined slightly as a percent of sales. Stampless stores, on the other hand, showed a slight profit increase.

Elsewhere in the country were the following developments:

**In Casper, Wyo., District Judge T. C. Daniels upheld the constitutionality of the city ordinance, passed last summer, that aims to bar stamps in that city.**

In Toledo, the Food Town grocery chain, third largest in the area, announced it would quit giving stamps. It had its own stamp plan. It is going to peg its merchandising policy to "the lowest prices in town on brand names" instead.

In Miami, Globe Stamp Co., Inc., a Florida concern, is folding. The big stamp companies, however, report they are doing fine in the Dade County area.

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## More and Bigger Outlets Fatten Profits for Drug Store Chains

Chain drug stores are getting bigger and, by the end of 1959, there will be some 600 new ones located largely in suburban areas.

This is what the magazine Chain Store Age sees for the retail drug business, which it says "weathered recession year 1958 with the highest sales in its history." **This year, drug chains expect sales gains of 7% to 9%,** resulting partly from more stores and partly from larger single units. Cunningham, big Detroit chain, is planning new stores ranging in size from 10,000 sq. ft. to 20,000 sq. ft., compared with units of 5,000 sq. ft. built a few years ago.

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## TV Operators Balk at FCC Order To Convert Boosters to UHF

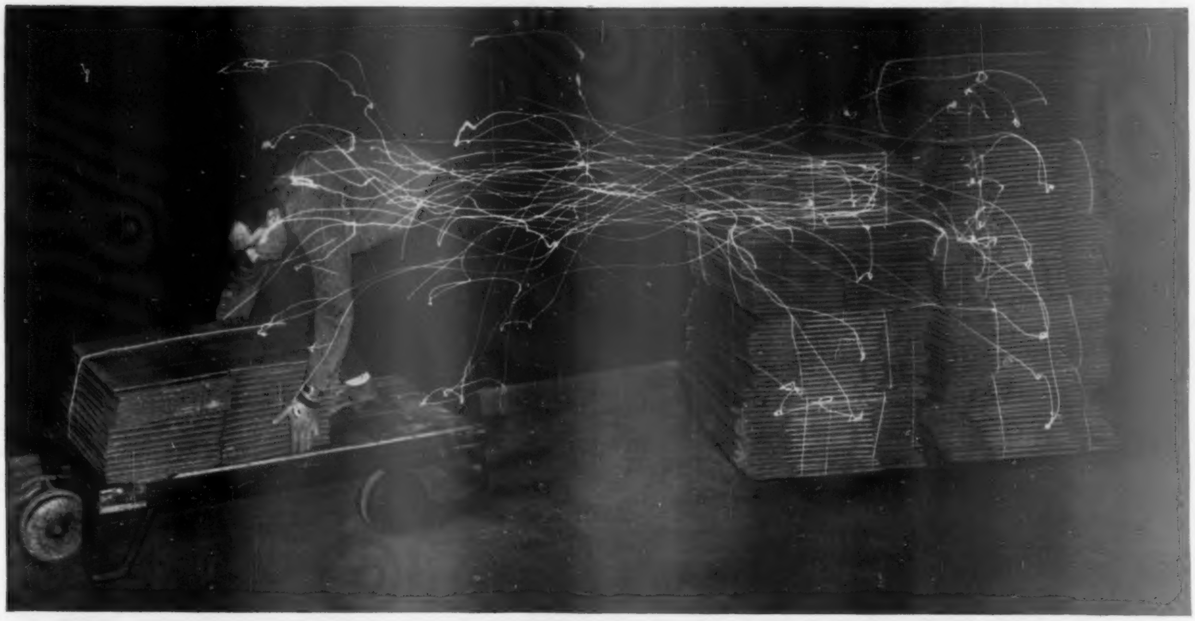
A smoldering broadcasting battle—the battle of the booster stations—has broken out again. These operations, mainly in the West, take a very high frequency TV signal, rebroadcast it over VHF to areas where terrain makes for bad reception. Unlike the translator systems, which rebroadcast over an ultra-high frequency signal, booster operators usually have no license; virtually all of them are nonprofit operations.

A few weeks ago the Federal Communications Commission ordered that such boosters be closed down by Apr. 1, and not reopened till they were rebuilt to rebroadcast on UHF, and get a license. The reason for the order: The amplified signals, fanning out beyond their service areas, may play hob with signals of licensed stations on the same wavelength.

**In Denver last weekend, FCC chairman John C. Doerfer met defiance from a lot of Western operators.** Gov. Stephen L. R. McNichols of Colorado, long a prime booster champion, told Doerfer "it would take the militia or something like that" to close down Colorado's 40 boosters (there are an estimated 1,000 to 1,500 such operations over the country, serving perhaps a third as many communities). Booster operators argue that it would take a lot of expensive equipment to rebuild for UHF rebroadcasting. Set owners, too, would have to convert.

Meanwhile, in Congress, congressmen from Colorado and Washington (where there are also many booster operations) are marshaling an attack to block FCC's order.

**Doerfer indicated in Denver that he would recommend a delay in the Apr. 1 order**—but pointed out that the full commission might not go along.



# Food Is a New Product Business

**● Finding new products a good sales stimulant, food companies are hiking their spending on research and development by 13% this year.**

**● And they are relying much more heavily on well-equipped pilot plants to test new products and processes, work out production kinks.**

**● The emphasis on research and development also is producing new and more efficient methods of food processing.**

The most important turnover in the food industry today is not apple pastry but product turnover. By tempting consumers with new ideas for eating, the industry boosted 1958 manufactured food sales to a record estimate of $55-billion.

An estimated 50% of food products on store shelves today were not there eight years ago. Food makers put the rate of new product development at three to 10 times what it was in 1948, and sales of items added since World War II account for 11% to 35% of total sales in different companies.

• **More Research**—What's more, 77% of food companies plan to bring out new products or improved versions of current items in 1959, according to a survey by Food Engineering, a McGraw-Hill magazine. Technical research spending will be up 13% over 1958, and the survey reveals that 47.6% of research dollars go for new product development. The industry is spending about 0.2% to 0.5% of sales revenues on research and development, with the leaders as high as 1%. Most industries spent 2% to 7% of sales on R&D.

New products range from hot ketchup (it contains Hontaka pepper and other spices, and H. J. Heinz Co. says, with a straight face, it's the company's hottest prospect for 1959), to beef in red wine sauce with onions, frozen in a plastic pouch that you cook simply by popping into boiling water for a few minutes (put out last fall by Seabrook Farms).

• **Swing to Convenience**—The plastic-sealed prepared foods exemplify the big swing to convenience foods, where the processor does more of the cooking so the housewife can spend less of her time over a hot stove. Convenience food sales were up 9% last year while all foods rose only 6%. Specialty lines like gourmet foods are growing, but bigger sales of health and baby foods also show that demand for new food products doesn't depend solely on the consumer's hunger for new taste treats.

Manufacturers like some convenience and specialty items because they bring in a slightly higher profit than conventional ones; the industry traditionally has had to make do with low unit profits and high volumes. At least one manufacturer says the food industry is going in for new products because it seems easier to add another item that adds a small profit than to increase net earnings by cutting costs. But it takes some time—often as long as five years—before a new product pays for itself.

That's one reason why improved old products get as much effort as new ones in the food industry's product development work; a smaller investment may build sales even more quickly. It may be as simple as a new flavor of gelatin or a quicker-dissolving instant coffe. Or, like Heinz' hot ketchup, it may be a genuinely new product that's still blood relative to an old one.

## I. The Developers

Product development in the food industry is largely a function of combined research and development departments, with a strong assist from the marketing end. Production men in most companies come in only when a new process is ready to roll on a full-scale basis, to help R&D men iron out last-minute kinks.

Product development staffs have grown almost as rapidly as the number of new products. Swift's, for instance, has almost quintupled the number of developers—and their budget—in the past five or 10 years. Heinz eight years ago established five product managers in the marketing department, responsible for ideas for new products and basic changes in old ones.

• **Management's Role**—As food makers have realized the importance of new products, top management has been brought into the picture. At Campbell Soup Co., for instance, after a product idea has been through the pilot plant, a top-level product committee reviews all the previous work and future plans. Representatives from research and development, production, purchasing, capital investment, marketing, and sales consider costs, price, demand, production facilities, and anything else that may affect the ability to make a successful product. A product has to pass this board before it goes on to consumer testing, and full-scale production.

There's more to a significant innovation than a new label or a plastic package. New products often mean new processes, and that's why pilot plants have come to be important.

## II. Importance of Piloting

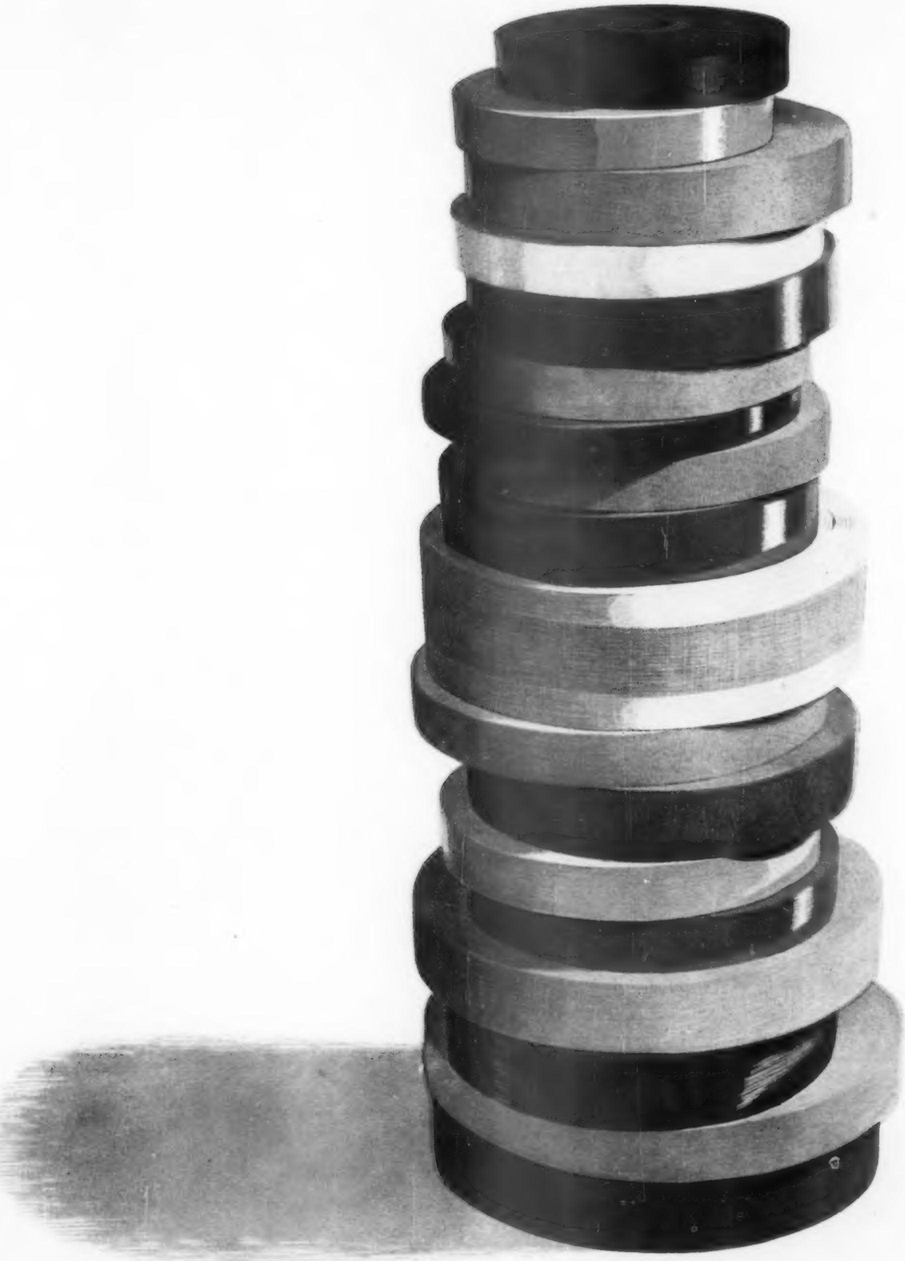
Food companies are relying more heavily on well-equipped and flexible pilot plants to test new product and process ideas cooked up in the lab or experimental kitchen. Until recently, some tried to skimp along with small pilot facilities, or sandwiched test runs in between regular production runs on full-scale equipment. Now the trend is the other way: Campbell Soup this year will open a new research center and pilot plant, much larger than its present installation. Heinz dedicated a research center and "pilot shop" in Pittsburgh last fall.

The role of pilot plants is growing, because to increase the number of new products, it's usually necessary to make a disproportionate increase in development work.

• **Scale-Up**—There's another reason for bigger pilot plants. A process may work one way in the laboratory or test kitchen with one-thousandth of production quantities, another in the pilot plant with one-twentieth, and still another at full-scale production.

To solve these problems of scale-up, it may even be necessary to use full-scale equipment in the pilot plant. Harvey K. Murer, General Foods' director of research, says the ideal would be to get minimum-size equipment that would still simulate full-scale processes exactly. "But some things you don't know enough about to scale them," he says, "so you build them on a production scale." Borden and Campbell agree.

Heinz engineers, on the other hand, though they use their pilot plant to work the bugs out of new production machinery, say they can figure production scale correctly without full-scale processing. But all food processors are concerned with the problem because




Bottles blown by
Royal Manufacturing Company, Inc.,
Prescott, Arizona.

differences from scaling up can affect texture and flavor.

• **Cost Advantage**—Food makers also find that extensive pilot facilities can save money and time in developing and testing. Heinz, for instance, took only 10 days in its new pilot shop to develop a new tomato concentrate that allows the user to determine the strength of his tomato juice as he would that of a Martini. It tested two alternative processes and produced 10,000 dozen cans for test marketing.

In the old days, testing would have been done on the production line and taken about a year. It would have been economic to test only one process, because two would have tied up production lines too long. And production quantities of tomatoes would have been used for the test runs because some process equipment won't work efficiently with less—44,000 lb. of tomatoes an hour instead of 2,500 in the pilot plant. That's why some Heinz operations people say the pilot facilities paid for themselves in three months.

• **Less Anguish**—Pilot plants can also prevent sales loss—because a new or improved product wasn't ready on time.

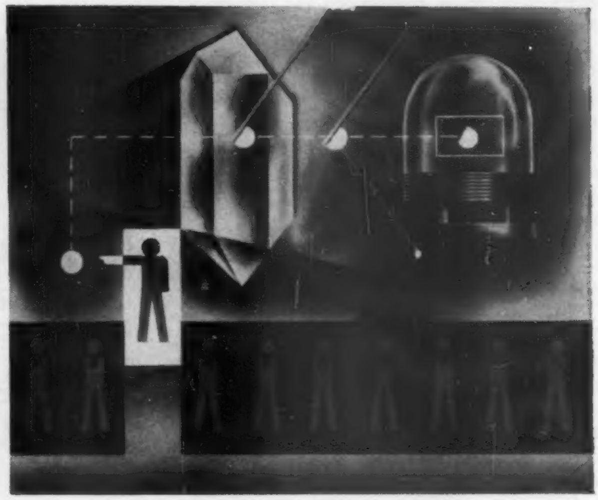
One company's instant coffee, for instance, did well at first but then started to sag. Its research department had been working on product improvement with minimum lab and no pilot facilities, but so long as sales held up management wasn't interested in expanding these efforts. When sales dropped in comparison to competitors', however, management seized on the limited research results, built new production equipment without piloting it —and lost more money and sales when the equipment didn't produce as expected. The company now has a full research center and pilot plant.

• **New Processes**—Sometimes a new product may not seem like much of an innovation compared with the process that makes it possible. It's here that the pilot plant does its most useful work and can bring about changes in food technology.

Seabrook Farms, for instance, used an electric broiler to cook batches of its new prepared frozen dinners in the lab. But Seabrook wanted to evaluate an alternative method that might improve production efficiency: a continuous broiler using infrared heat. The pilot plant was the economical place to try it. The process worked and is now in use on a production basis.

This work reflects a technological trend now spreading from one segment of the food industry to another—the switch from batch production to continuous flow, which lowers costs and insures uniformity of product. Without the industry's concentration on product development, this trend probably would have come about more slowly. END

**MISSILE COMPONENTS** Bulova's infra-red seeker cells are designed to lock any missile on target; Bulova's fuzing systems do the rest. Powder-driven gyros, timers, safety-and-arming systems and other electronic and electro-mechanical devices, designed and made by Bulova, play vital roles in the Sidewinder, Dart, Talos... in all, 18 key missiles.



**AUTOMATION** Bulova R&D designed mechanized plant and equipment for Signal Corps goal of 10,000 perfect quartz crystals per 8 hour shift —with 1/10th the manpower. From systems analysis through equipment development, Bulova engineers devise industrial and military facilities for automatic production of electronic components and ordnance items.

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Time, mass, length... the age-old concepts man relies on as he enters the Age of Space.

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BULOVA RESEARCH AND DEVELOPMENT LABORATORIES, INC.

**PRECISION MANUFACTURING** Bulova-built servo muscles steer our nation's first ballistic guided missile — the Corporal. When critical tolerances demanded uncompromising accuracy, Bulova solved tooling and assembly problems on a crash basis. Bulova experience and facilities are unexcelled where precision, reliability and capacity are vital.

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# In Production

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## Aluminum Girder Bridges to Carry Traffic on Long Island Expressway

Two aluminum girder bridges—the first in the U.S. to be built without subsidy from materials suppliers or research groups—are slated for New York's Long Island. They will carry traffic of the Long Island Expressway over an intersection with the Jericho Turnpike.

The spans will be made of 78½-ft. bolted aluminum girders with extruded aluminum flanges. The extrusions, tilting the scales at 1,400 lb. each, are the heaviest ever delivered by Kaiser Aluminum & Chemical Sales, Inc. Pullman-Standard Car Mfg. Co. is fabricating 35 girders for delivery this spring.

Cost of the two bridges will be almost $4.4-million. **This is somewhat more than for comparable construction with steel, but the job will give the builders experience with aluminum,** which could then be used on future projects in case of a steel shortage. During the last pileup in orders for structural steel, deliveries for highways were delayed as much as 22 months.

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## Britons Find Way to Avoid Grinding In the Manufacture of Plate Glass

An English company has eliminated grinding in producing plate glass. Pilkington Bros., Ltd., draws out the molten glass from the furnace in a continuous ribbon and passes it directly onto a supporting surface of molten metal that prevents ripples and thin spots from developing in the glass sheet. Getting rid of undulations in ordinary glass requires grinding on huge and expensive equipment, which impairs the finish.

The new glass will be sold at plate glass prices, according to Pilkington, England's sole producer of plate glass.

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## Devices Collect Data From All Over, Process It for Feeding to Computer

A system of devices that automatically collects accounting, production, and payroll data and reduces it to a form that can be digested by computers was introduced this week by Stromberg Time Corp., of Hartford.

Stromberg's Transactor System, which picks up information from any point in a company's departments, has two standard components:

**Transactors,** units the size of time clocks, which collect information at remote points. They can be fed by prepunched cards, numerical dialing, coded keys, or by all three at once.

**The Compiler,** a central recorder that decodes signals from the Transactors and punches them out on paper tape.

In a time clock operation, for example, the employee inserts his coded key in a Transactor. Any desired data—payroll number, department, time, even location and nature of the job—is flashed to the Compiler, which records it on tape. The tape is compatible with most standard tape-reading typewriters, card perforators, or computers.

Stromberg calls its first two installations pilot jobs. One was sold to the Naval Gun Factory in Washington, where it feeds an IBM 650 computer, the other to GE's Home Laundry Dept. at Highland Park, Ky., where it is integrated with a Univac I. Stromberg does not intend to sell from now on; **it will lease equipment at $95 a month for a Transactor and $450 a month for a Compiler, which can handle up to 50 Transactors.**

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## Aluminum Industry Readies Itself To Supply New Customers

The aluminum industry has no intention of being caught in short supply if the door to the automotive or housing market should suddenly swing open. Two recent developments point this up:

• **Ormet Corp.,** a joint venture of Olin Mathieson Chemical Corp. and Revere Copper & Brass, last week dedicated its $55-million alumina plant at Burnside, La. This indicates that the plant, which has a capacity of 345,000 tons a year, is now operating full blast.

• On the same day, **Aluminum Co. of America** announced it had started to ship bauxite from its new holdings at Aceittillar, Dominican Republic, to its Point Comfort (Tex.) alumina refining plant. Alcoa spent $14-million developing this new bauxite source.

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## Two Improvements in Spinning Machines Excite Long Static Textile Industry

The textile industry—which has changed but little since its techniques reached a high degree of efficiency decades ago—is in something of a dither over two revamped spinning machines.

The Roberts Co., of Sanford, N. C., has developed a **long-fiber spinning machine that, without pre-adjustment, can take any fiber, no matter what its type, thickness, or length.** Most spinning machines—their job is to twist fiber strands into yarn that can be woven into cloth—have to be readjusted for each change of fiber.

The Roberts machine solves the adjustment problem by a system of rolls at the point where the fibers are twisted together. This also helps in blending different fibers, such as wool and Dacron. Roberts also claims its machine produces higher quality yarn faster.

In Massachusetts, the Whitin Machine Works has **improved the spindle-drive mechanism of the spinning frames it produces.** Traditionally, the spindles that hold the bobbins on which yarn is wound are belt-driven in sets of four. Whitin drives each spindle individually, by mechanical gearing. So, when the yarn breaks, that one spindle can be shut down while the other three keep on running.

# FLORIDA...

*(Advertisement)*

# market place of the Americas

**Focal point of a Caribbean trading area of 48,000,000 population, annually importing over $2½ billion in U.S. goods; strategic part of the U.S. Southeast with its 18,000,000 people earning over $24 billion yearly.**

Florida's strategic position as the natural link between the Caribbean-Latin American area and the Southeastern U.S. is playing a key role in the State's remarkable continuing industrial development.

### Rich Latin markets

For instance, Florida's good neighbors to the south comprise a healthy market of over 44,000,000, importing better than $2½ billion worth of U.S. goods each year. The State's annual international trade has grown amazingly—from $73 million in 1930 to nearly $800 million in 1957, exclusive of figures for Puerto Rico!

Miami's rapidly expanding International Airport, second busiest in the U.S., leads the nation in international air cargo, ranks second in international air passenger traffic. Over 157,000,000 lbs. of cargo were handled in 1957—everything from matchbooks to meats to heavy machinery.

*Modern cities like Caracas, Venezuela, underscore Latin America's rising living standards; spendable income is increasing faster than population.*

### The Southeast picture

Equally important markets are found in the Southeastern U.S. The combined population of Florida, Georgia, Mississippi, Alabama, South Carolina, and parts of North Carolina and Tennessee numbers over 18,000,000. Personal income for this area in 1957 was more than $24 billion . . . and it is expanding at a rate faster than that of the rest of the country.

*Giant jet airliners are already in service to and from Miami International Airport. Boeing, Douglas, and Convair jets are all on order for regular Florida service.*

### Florida most impressive

The Sunshine State's own market story makes the best reading of all. Population now tops 4,500,000, is increasing by 225,000 a year at a rate three times that of the U.S. Florida boasts three of the ten fastest-growing major U.S. metropolitan areas—Miami, Jacksonville, and Tampa-St. Petersburg. And, for a unique "plus" market, over 8,000,000 tourists visit the State annually, spend over $1.3 billion a year.

Total personal income in 1957 was 899% greater than in 1929, biggest increase of all states. Retail sales continue to climb despite nationwide downtrends; Tampa, for example, registered a 17% jump in department store sales for January-May, 1958, over the same period of 1957, while most of the rest of the country experienced losses.

*Dominant state of the Southeastern U.S., Florida is just a few short hours by air, a day or so by sea from Latin American points.*

### Transportation's key role

Transportation is excellent in Florida; examples: Over 30 scheduled domestic and international airlines serve 20 commercial air terminals. Five major railroads crisscross the State. Ten major bus lines operate over regular routes, and 300 intra-state plus 100 inter-state registered motor freight lines keep materials and merchandise moving. And there are 12 deepwater ports throughout Florida.

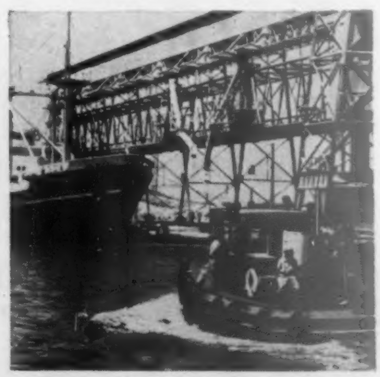
### Why new industry likes Florida

Newcomers such as Martin Co. in Orlando, General Electric in St. Petersburg, and Sperry Electronic Tube Div. in Gainesville find Florida ideal for attracting and holding skilled workers. Too, they've found communities anxious to help them get established. Pratt & Whitney, West Palm Beach, represents the type of firms which welcome sub-contractors everywhere in the State. The tax picture is bright, too; examples: no State income taxes on individuals and corporations, no State taxes on real property, no duplicating State inheritance tax.

**OTHER FACTORS IN FLORIDA'S GROWTH PICTURE: 1475 new plants were set up Jan. 1956 through June 1958 . . . over 100 electronics firms are at work in both civilian and military fields . . . gross annual income from agriculture is near $700 million . . . the State furnishes nearly 75% of all phosphate in the nation . . . Florida is one of the five fastest-growing states in chemical production . . . natural water resources are exceeded by those of no other area of equal size on the American continent.**

### Florida facts, figures . . . and surveys

The Industrial Services Division of the Florida Development Commission has prepared all-new factual studies on Markets, Manpower, Taxes, Transportation, Resources, Living Conditions, Research, Power and Water. These studies are available to you at your request.



*Tampa's busy deep-water port was third in the U.S. in coastal and export freight car unloadings in March, 1958.*

**In addition, the Industrial Services Division will gladly conduct special studies and assist in selecting sites. All inquiries are held in strictest confidence. Write today to B. R. Fuller, Jr., Executive Director, Florida Development Commission, 3803-6 Caldwell Building, Tallahassee, Florida.**

Come see Industrial Florida for yourself. Write State of Florida, Dept. C., Caldwell Building, Tallahassee, for new 100-page color Vacation Guide Book to help plan an all-Florida tour.

RESEARCH

# Tubes Switch From Hot to Cool

**Cold cathode electronic tubes devised by Army and Tung-Sol Electric Researchers may rival both hot tubes and transistors.**

The vacuum tubes in the picture below look just like any other vacuum tube except that they glow blue instead of red. But they are so dramatically different that they challenge both the hot cathode tube and the transistor.

The new tubes are cool cathode tubes, devised jointly by Tung-Sol Electric, Inc., and the Army's Signal Research & Development Laboratory at Fort Monmouth, N. J. The versions in the picture resemble ordinary hot cathode tubes only because they were built to be plugged into equipment rigged for the hot tubes; actually, the cool tubes could be produced in almost any size or shape. The Army touts them as the first big breakthrough in tube design in more than 30 years.

## I. Hot vs. Cold

The "hot" tube is a familiar component of present-day radios, television sets, and other electronic devices. In this type of tube, a red-hot filament "boils" electrons off the surface of the cathode. But because heat is necessary to make them work, these tubes require a warmup period before they start, and sooner or later they burn out. And in some installations, such as in computers, they generate so much heat that an air-conditioning system must be provided.

The cool cathode tube overcomes these disadvantages. Like the transistor, it runs cold. What's more, it's extremely reliable—and should last practically forever. One early model has been running for 14,000 hours with no loss of power in Tung-Sol's Bloomfield (N. J.) lab.

Eventually, the cold cathode tube might be used in home radio and TV sets. For the present, however, Tung-Sol and the Army are concentrating on military applications. Among other things, the discovery should speed the development of smaller, more efficient walkie-talkies and other communications gear in which the heat given off by conventional tubes is a serious problem.

• **Contrasts**—The cold cathode tube needs only 10% as much power as its hot cousin—a shining virtue in uses where power is at a premium. Like the transistor, it starts almost instantly after power is turned on; the hot tube takes 18 to 20 times longer to warm up. It can also be made as small as the pea-sized transistor if necessary. Unlike the hot cathode tube, it will idle with a minimum of power going through it—an advantage in communications systems where it has to be left on all the time.

The new tube is superior to the transistor in several respects. It will run regardless of the temperature extremes to which it is subjected. And it isn't affected by radiation. This means that it would be suitable for communications equipment in the nose cone of a missile or space ship. In space travel, the vehicle will have to withstand both terrifically high temperatures and bombardments of cosmic rays. The immunity to radiation would also qualify the tube for use in atomic plant controls.

• **Inner Workings**—Before the cold cathode tube really goes to work, though, more development in the lab is necessary. The scientists have proved that it works, but they're not yet entirely sure how. Basically, the tube consists of a thin layer of magnesium oxide—dried milk of magnesia—deposited on a nickel sleeve in a vacuum chamber.

Magnesium oxide is a phosphor that emits light when it's bombarded by electrons. As electrons pass through the layer of magnesium oxide, they cause the emission of blue light. At the same time, they apparently also set up a high electrical charge across the surface of the layer. Dr. Dietrich Dobischek, Army scientist who developed the tube, thinks this electrical charge may be responsible for causing the electrons, liberated within the magnesium oxide, to stir up millions of other electrons and push them to the surface, too. This makes it possible for the tube, once it starts running, to keep going almost indefinitely.

• **Present Effort**—Currently, researchers are trying to gain a better insight into this process. So far, they have found that the magnesium oxide coating should have a particular porous structure for the best results, and that it should be heat treated in the presence of oxygen. Unfortunately, it's difficult to manufacture coatings with the proper degree of porosity.

Tung-Sol says it is well along in development of a cold cathode tube for audio amplifiers, however. Still in design stages are items such as cold cathode electron ray guns for TV sets and the like. Their future depends to some extent on costs, and since only lab models of the new tube have been manufactured so far, cost is still something of an unknown factor.

## II. Other Contender

There's also steady progress in development of another sort of cold cathode tube, this one the brainchild of Dr. Walter C. Dyke, director of the Linfield Research Institute at Linfield College, Oregon (BW—Jan.21'56,p132). In the Dyke tube, electrons are emitted directly from a tungsten needle into a vacuum. It is a high-frequency power source, as opposed to the Tung-Sol tube, which is a low-frequency power source. Making use of a phenomenon known as field emission, the Dyke tube produces current densities as high as 100-million amp. per sq. cm. The Tung-Sol tube produces at the moment about 10 amp. per sq. cm.

The Dyke tube, now being produced at the rate of two a day, costs from $240 to $395. Potentially, it could replace a whole bank of transistors in devices needing a high resolution beam deflection, such as data storage tubes in big computers, radar picture tubes, and possibly even switch tubes for computers. It might also be used for fixed-beam tubes in X-ray machines and for short transit microwave tubes. END

**DISCOVERER of the cool-running tubes is Army scientist Dr. Dietrich Dobischek.**


EVERYDAY MIRACLE

## Weather to Order

How do you like your weather? In Goodyear Aircraft Corp.'s Akron (Ohio) experimental test laboratory temperatures can be made to vary from minus 100F to plus 200F. The researchers pictured above are measuring the effect of very cold temperatures on a rubber sphere.

Purpose of the lab (typical of dozens of other company laboratories) is to test products under development for use under a wide variety of climatic conditions. Product specimens, ranging from the small component to the largest assemblies, are exposed to different altitudes, temperatures, humidity conditions, high and low frequency vibrations, shock, acceleration, simulation of transportation or immersion. Generally, several of these features are tested at the same time—often when the test part itself is running under electrical or mechanical power.

## RESEARCH BRIEFS

**A flotation material** for an all-latitude, all-weather, ready-to-go gyroscope has been successfully evolved by the Air Force and Sperry Gyroscope. Gyroscopes are the heart of the inertial guidance systems in long-range missiles; previous flotation materials had to be continuously heated to keep them liquid under Arctic conditions. The new material, a bromine compound, remains plastic down to minus 65F.

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**A small rocket engine** using prepackaged liquid fuel has been successfully flight tested by the Navy and Thiokol Chemical Corp. Earlier, Thiokol announced the successful ground test of a slightly larger fuel package, with 50,000 lb. of thrust.

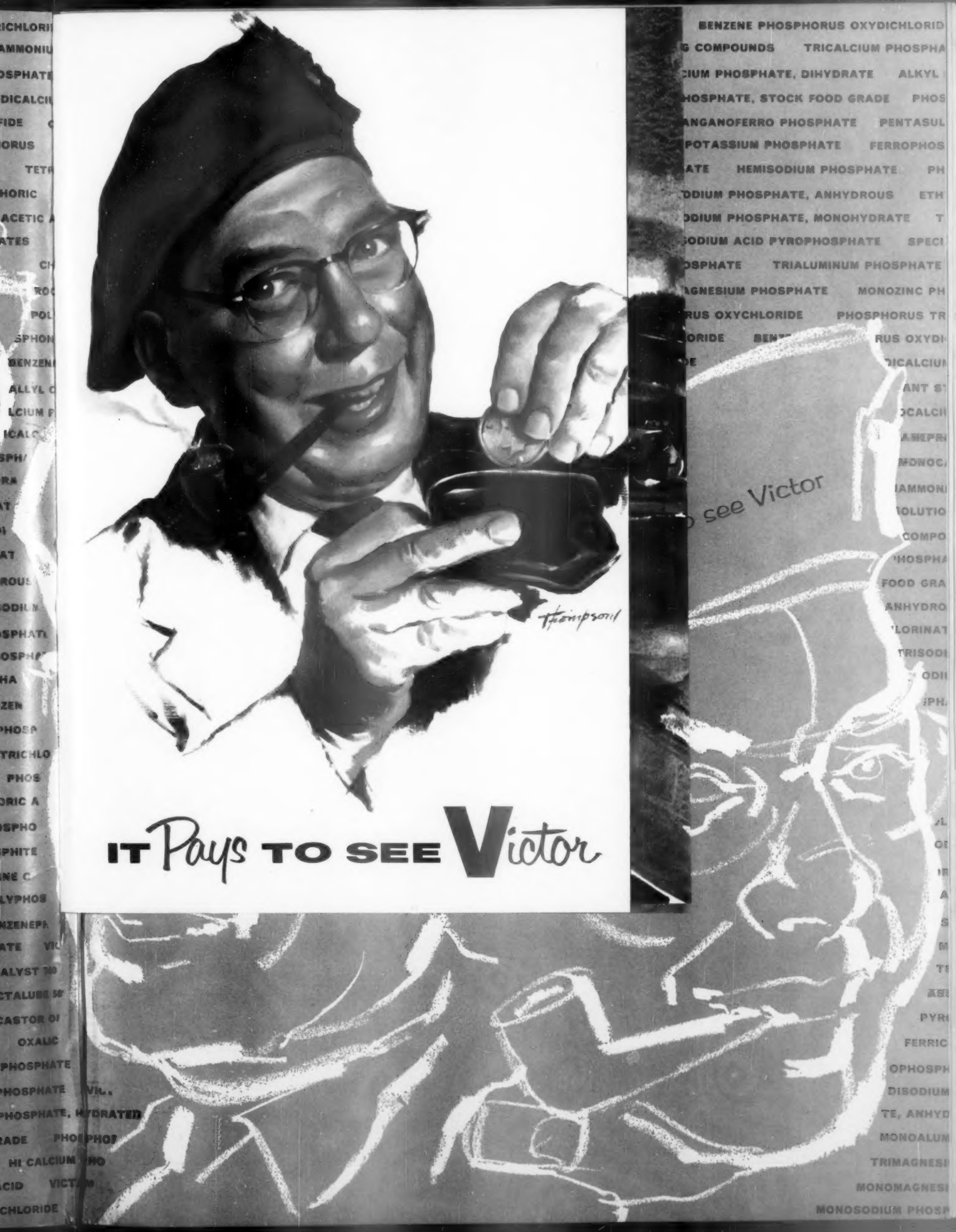

# NATIONAL STEEL

Multiply the cans you see here by 2 billion—and it still falls short of the output it takes each year to pack the myriad products we buy in cans. The actual yearly total in the U.S. alone: more than 40 *billion* cans—26 billion of which contain foods of almost every imaginable variety.

Through its Weirton Steel Company division, National Steel is a leading supplier of the tin plate from which cans are made. Weirton produces both electrolytic and hot-dipped tin plate . . . and its output makes National Steel the nation's largest independent source of this material.

Tin plate is just one of many quality steels and steel products in which National Steel specializes. Another National Steel specialty is service. A look-ahead service dedicated to all American industry through its five major divisions: Weirton Steel Company, Great Lakes Steel Corporation, Stran-Steel Corporation, Enamelstrip Corporation, The Hanna Furnace Corporation.

NATIONAL STEEL CORPORATION, GRANT BUILDING, PITTSBURGH, PA.



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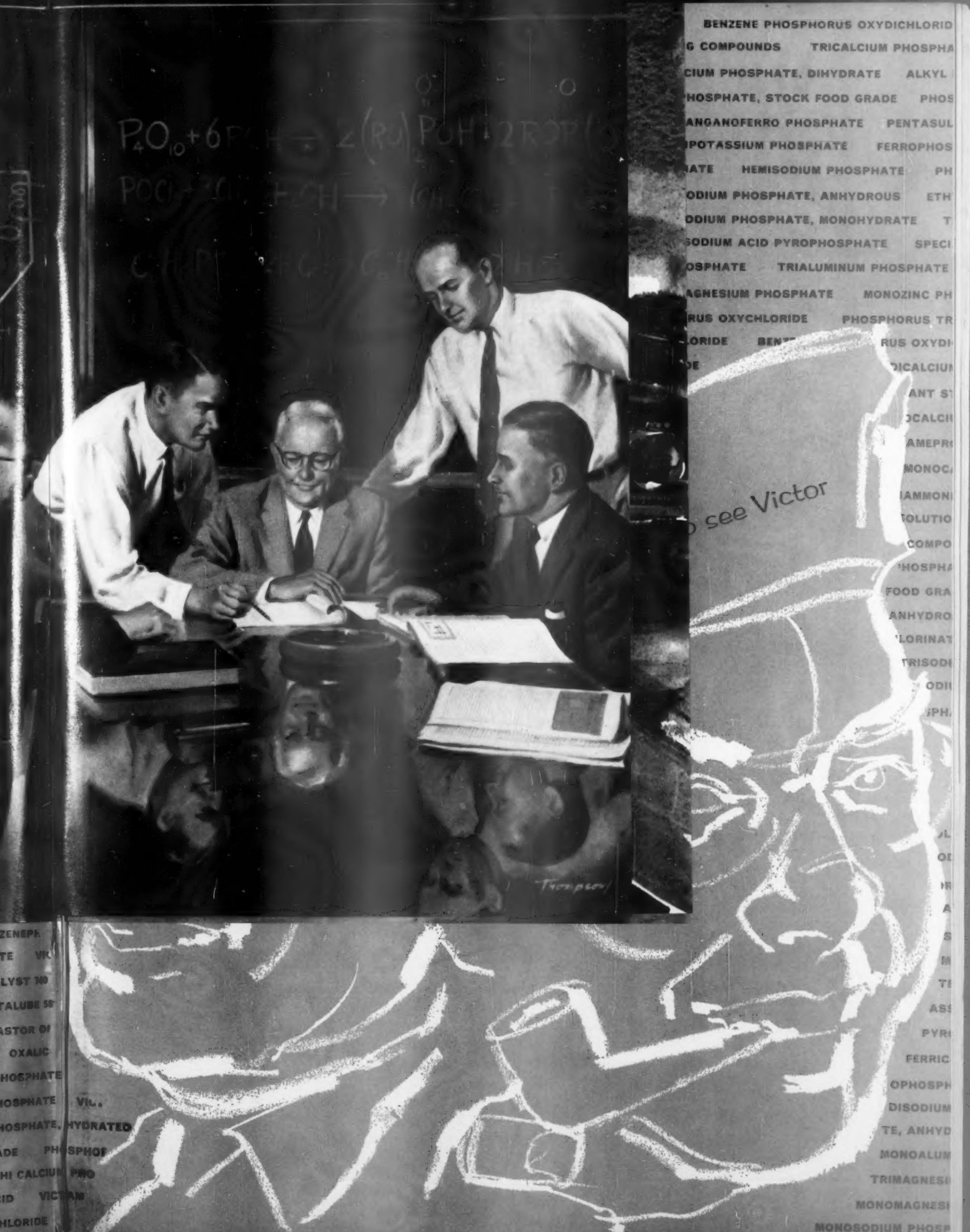
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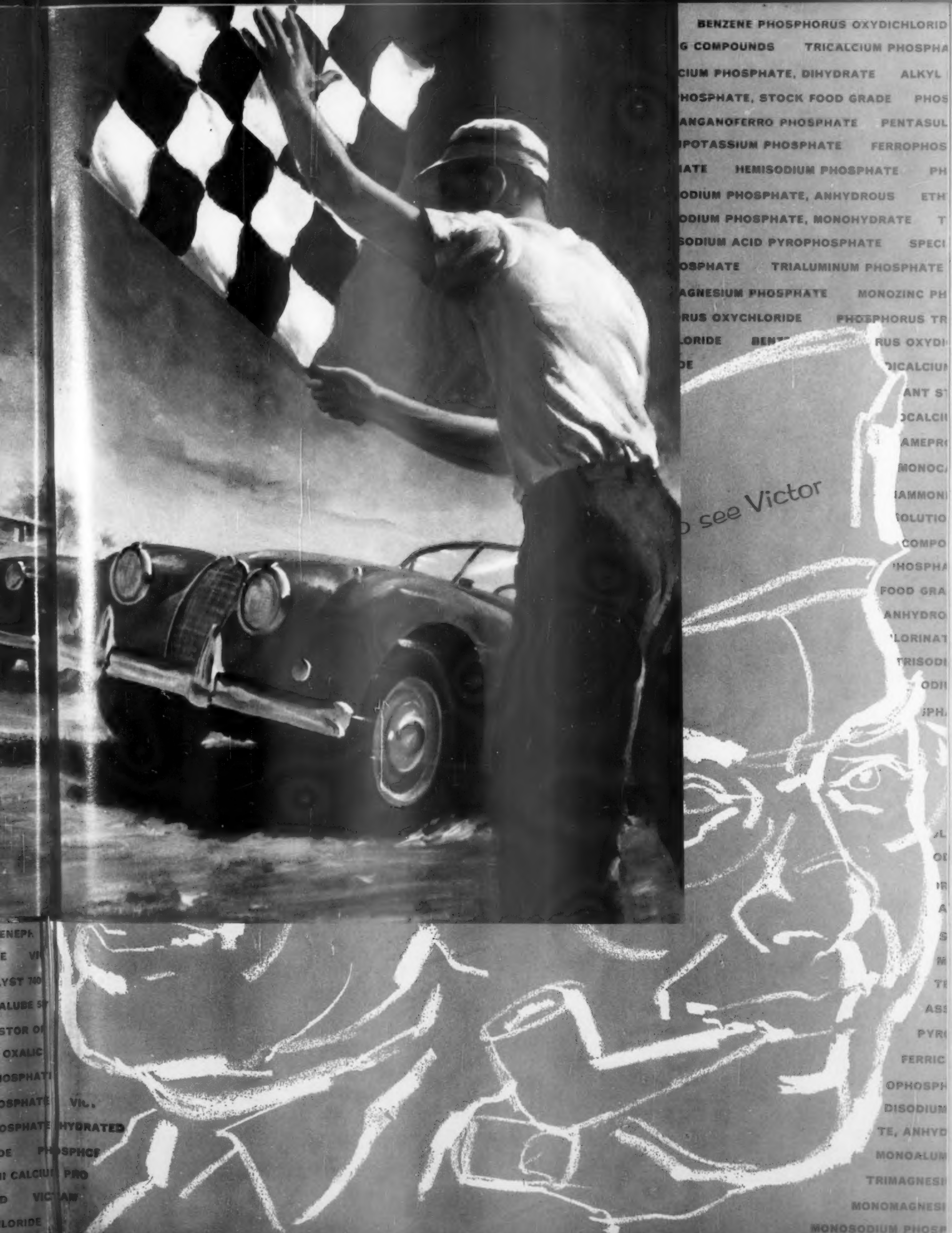

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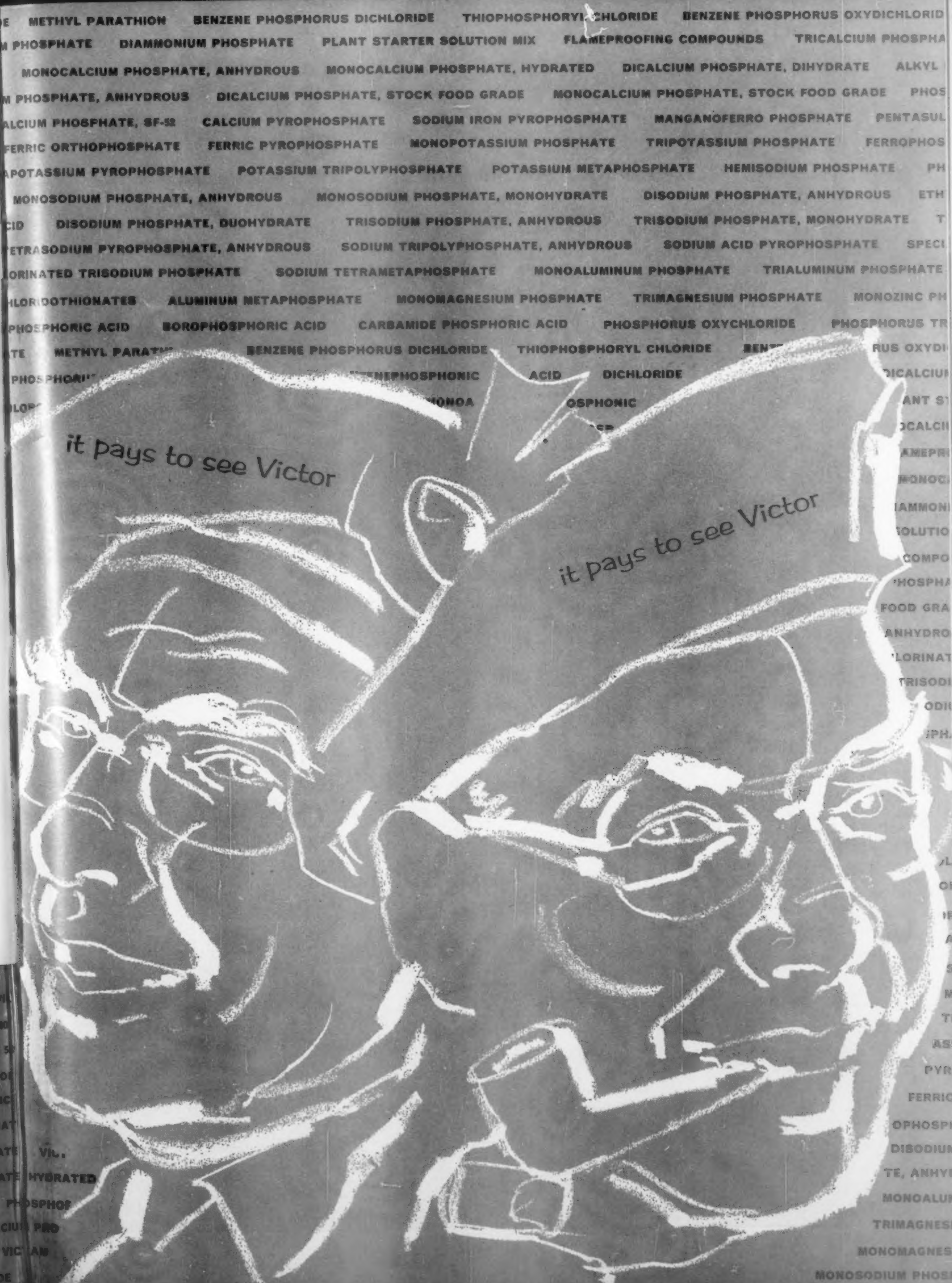
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**R.A. Bell,**
executive vice-president,
Surface Combustion Corp.

***"Management is more conscious of economic shifts now than it was before the recession."***

**J.W. Bozeman,**
chairman and president,
Tuboscope Co.

***"The big thing was that the recession gave us an opportunity to do housesweeping."***

**H. Thomas Hallowell, jr.,**
president,
Standard Pressed Steel Co.

***"The recession didn't last long enough for us to do all the things we wanted to. Sure, we're glad to be coming out of it. But we could have used more time to work out some more operating improvements."***

**Leonard M. Keating,**
vice-president,
A.O. Smith Corp.

***"The recession gave us the occasion to trim some fat that would have been hard to get rid of in more prosperous times."***

# Lessons of 1958's Recession

The late recession has passed away notably unlamented by the generality of man. But for a lot of businessmen—the quotes above are typical—there was a blessing among the pains: The very tightness of the squeeze forced them to sharpen up efficiency that had grown soft in the long fat years.

Of course, the toughening up did not wipe out the very real hurt. Businessmen around the country—dozens of them were visited by BUSINESS WEEK reporters—were all aching sorely from the recession blows. No one was laughing off manufacturing profits that were down 28% in the first nine months of 1958 from the year-before period; or manufacturing employment down to a seasonally adjusted 15-million last May from 17-million in December, 1956; or retail sales, also seasonally adjusted, that fell $6-billion from December, 1957, to February, 1958.

The scars remain, but a startling number of businessmen admitted that the wounds had forced them to slash off rolls of fat, and to build up some entirely new muscles.

## I. Slicing Off the Fat

When business began to plummet, executive knives went for all the fat in sight, and they cut in all directions.

Too many people and too much side pay were a prime target. The simple thing was to chop off workers as sales fell, then hire them back when the trouble passed. But a good many companies found they didn't have to hire them all back; some payrolls had become bloated during the long boom. In Salt Lake City, a clothing manufacturer found it could increase production 8% with 10% fewer workers and no new equipment. A Birmingham manufacturer found, with mixed surprise and delight, that "we could get as much production in 32 hours as he had in 40 previously."

Permanent cuts in work force took varied forms. Humble Oil & Refining Co. used an early retirement plan to prune 450 of its 55-year-olds off the payroll. A Pittsburgh metals company—which prides itself on not having compulsory retirement—got plant managers and union officials to pressure over-65s into "voluntary" retirement.

• **Fewer Fringes**—Workers who weren't let out also felt the knife. Fancy fringe benefits were chopped away in many cases; expense accounts went on a rigid diet—with limits on entertainment set as low as $1 a day.

Consolidations, of departments and plants, provided some economies. A steel company saved an annual $20,000 just in head office rent by combining such departments as purchasing and traffic; wage economies were larger. In the South, a paper company combined separate art departments whose peak loads did not coincide. The result: big savings in overtime.

Eyes seeking economy fell on mountains of accumulated papers, and on unneeded new ones piling up. A GE plant threw out 13 tons of aging figures. In Milwaukee, Bucyrus-Erie saved $50,000 in unnecessary forms and reports. A steel company, cutting reports by 5%, speeded approval of requisitions by a week.

The quest for unnecessary reports had a byproduct: companies discovered that they needed reports they didn't have. Basic, Inc., a steel industry supplier, now circulates reports by the staff economist to all executives; it figures it could have braced itself better for the recession storm if it had done this in 1957. As an example of the new planning: Basic's Nevada plant is running full blast, way ahead of current demand, to meet calls that the economist figures will come in mid-1959.

In general, the carving off of fat worked fine, but a few times the knife slipped. Several companies spoke of across-the-board cuts, but clammed up about the obvious penalizing of the more efficient departments. Others talked of salary savings by pushing young men up, didn't mention the losses in experience. One outfit, which discouraged branch plants from getting

help from central staff—by charging them for the service—found its main-office experts were hardly being used at all.

## II. The Hard New Muscles

For many companies, the recession's left-handed benefits were greater in the area of positive new improvements than of chopping any dead wood. For one thing, the able top brass were frequently put back to work, after taking it easy in an era when the slogan had been to give more autonomy to lower echelons.

In Atlanta, a big company created the post of manager of all domestic business, who rules over previously powerful regional managers. In Los Angeles, the very decentralized Consolidated Electrodynamics Corp. found it expedient to tighten things up with a whole new level of vice-presidents. A. O. Smith Corp. and Beckman Instruments, Inc. were two of many that made a complete switch to centralization.

• **Bargaining**—The new centralization brought a dividend in labor bargaining, with more powerful managers finding they could get tougher. Says a plant manager in Hartford: "We tried for seven years to get the union to accept an incentive pay plan, and failed. But it's in the contract this year."

Revitalized top management also went to work on inventory control. Over-all, inventory took a real beating during the recession, plopping from a \$91.3-billion high in September, 1959, to a low of \$84.9-billion last October. A lot of that execution was just plain falling sales, but many a business reported that it discovered ways to live with a smaller ratio of inventory to sales, with the new controls designed for permanent service in good times as well as bad.

A New England company took to warehousing stock in five regional centers, instead of in 110 branches; it cut finished inventory by 50%. In San Francisco, an outfit attacked inventory so vigorously that it tacked a higher price tag on fast-delivery goods that had to be transported from regional warehouses instead of from the main plant.

• **Accounting**—Accounting systems for both costs and production found themselves with a new popularity, and rule of thumb methods suffered quite an eclipse. A Pennsylvania plant got rid of a two-to-three day delay in job reporting by installing phones close to each machine operator. Now the operator simply phones in whenever he starts or finishes a job; before, he had to fill out a card which oozed along through channels to the accounting office.

With the new well-stropped account-

*Far-ranging oil exploration crews make heavy going lighter by using new TI-built, TI-transistorized electronic gear to find subsurface oil traps. (Left to right: EXPLORER seismograph amplifier, power supply and recording oscillograph.)*

*In yet another important industry . . .*

# TRANSISTORIZATION SLASHES 'EXCESS BAGGAGE' COSTS

Fuel *must be found* to fire your furnace, light your oven and power your car, train or plane. World petroleum consumption exceeds four and a half *billion barrels* per year and it's climbing. As old oil fields are depleted, new ones are being sought in distant corners of the world. TI's new all-transistorized seismic amplifier gives oil hunters more freedom of movement. In their constant search through jungles, swamps, snow fields, and mountains less weight pays dividends.

Designed for use far off beaten paths, this basic detection instrument is well over 100 pounds lighter than previous fragile, bulky vacuum tube systems! What was a heavy load for three men has been shrunk to a reasonable pack for one . . . fitting in a normal-size suitcase. For power, one lightweight, quickly rechargeable battery replaces several heavyweights.

Thus another important industry is helped by reduction of equipment size, power, weight, and maintenance brought by the transistor. Fittingly, TI's recent transistor progress has now benefited TI's original and continuing activity — geophysical exploration for oil — to lighten the physical load of today's wider-travelling oil prospector.

Designed and manufactured by the Industrial Instrumentation division of Texas Instruments, this first all-transistorized seismograph amplifier contains 677 transistors and other semiconductors made by the TI Semiconductor-Components division. It will be used all over the globe by oil exploration contractors including the world's largest, Geophysical Service Inc., a TI subsidiary. Through teamwork like this, Texas Instruments continues to expand technical horizons for defense and industry — in transistor applications, in geophysical exploration, instrumentation and data handling, and in optical and electronic component and systems development.

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INCORPORATED

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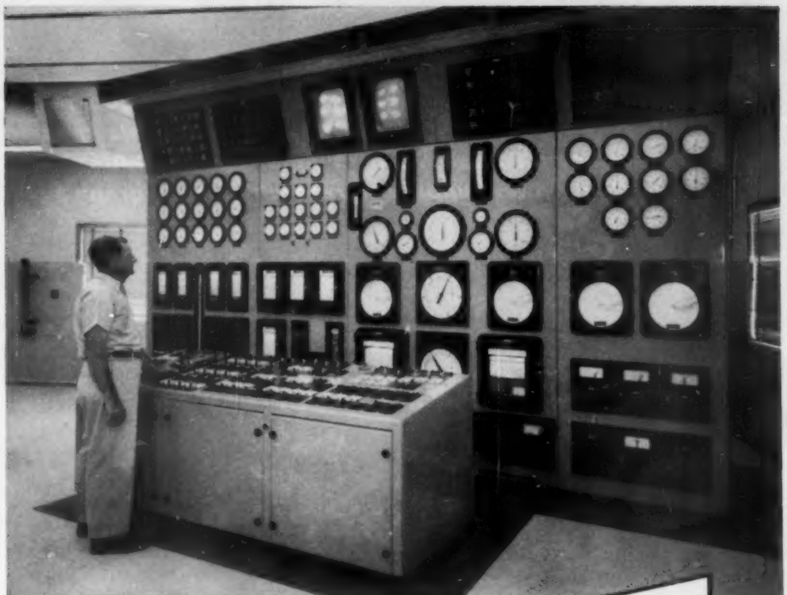
DALLAS 9,
TEXAS





ing and reporting methods, management found it could do more intelligent budgeting. This wasn't just a cutting of smaller pieces from a shrinking income pie; smart companies found spots where spending more money would bring outside addition to profits. These boosts took many forms: harder selling, new tools, more research.

To step up sales, Lyon Metal Products, Inc. in Illinois, instituted regular district sales meetings. Another Midwestern company "refreshed" its dealers with a monthly correspondence course on sales techniques. Other outfits gave salesmen an economic prod with higher commissions—and lower base pay.

• **Branching Out**—Invading new territories was frequently tried. A Georgia trailer maker began distribution in seven Western states; Tuboscope Co., a Houston sleuth for oil pipe defects, expanded clear into the foreign field—"the recession showed us that we are going to have to learn to compete with the rest of the world." A Connecticut company opened its first new office in 34 years, in Charlotte, N. C.

Modern machinery has won the respect of many companies. An Alabama textile mill says it is spending millions on labor-saving machinery: "It's the only way to fight synthetics and foreign textiles."

Research and development budgets have gotten frequent boosts. The idea, says a packaging machinery maker with an R&D budget up 30%, is "If we do a good job developing new products, another recession won't have the effect this one did." Not all product expansion came through R&D.

## III. Staying on the Wagon

Plenty of companies are wondering how to maintain their newfound efficiency for the long haul and in times of plenty. They realize that today's improvements were mostly the application of time-honored practices of economy and efficiency that had fallen into disuse as boom money flowed in.

Most management men insist that they will stay on the efficiency wagon. But there are skeptics. A Utah metal fabricator says its tightening program "was like a New Year's resolution—a thing of the past by Jan. 15." And the executive vice-president of a steel company adds: "In good times, managers just don't have the time to attack costs. If we carry 5% of these cost-saving ideas through 1959, we'll be lucky."

The paths of laziness had their own charm for one of the largest appliance distributors in the West. "Riding herd all the time to get efficiency takes a lot out of the top man," he said. "The other day I asked myself, 'Why kill yourself to make $10 when you can make $9 with a lot less strain?'" END

# Rockwell Report

*by* W. F. ROCKWELL, JR.
***President***
**Rockwell Manufacturing Company**

IT IS A HEALTHY THING, we believe, that more companies are paying more attention to business outside the U. S. This is good both for the national economy and for individual businesses. Export volume can be a very respectable share of the total. At the same time we have found there is a lot to be learned about money, taxes, and terms when dealing with customers outside the U. S.

International trade is also a worthwhile form of market diversification. When business may be at a low ebb here, it may be very good in other parts of the world. A well-developed foreign business can raise the floor of business valleys without lowering the peaks.

But while more and more American manufacturers realize the importance of developing international markets, there is also a seriously discouraging factor. The United States government is not as experienced in international business as are most European governments, and therefore is not as understanding or as flexible in supporting the efforts of businessmen in developing foreign trade.

This is especially important in selling industrial products for which a single order may amount to several millions of dollars, and when the sale may depend on issuing long-term credit. A manufacturer in West Germany, Italy, England or France can have such an order approved by his government, take the invoices to his bank, and immediately get 75% to 85% of the face value. An American manufacturer competing for this same business frequently must assume the entire risk, as well as tie up either his working capital or credit which he may need for operating his domestic business.

Perhaps the solution is for manufacturers to take the lead in convincing both government and financial people that in order to reap the national benefits of a healthy international trade it is necessary not only to desire it, but to take the political and financial steps necessary to get it.

* * *

**To encourage employees to submit ideas for new products and product improvements, and also to aid in processing such ideas promptly and fairly, we use a simple form headed "This Is My Idea." It provides space for the employee to sketch and describe his idea, for his signature and that of a witness, the date submitted, date received, and the disposition of the idea by the reviewing committee.**

* * *

***Ideas for at least three of our presently successful products, and for many product improvements, have come from employees through the channel described above. This seems especially significant in view of estimates that only one out of every 500 new product ideas proves practical enough to reach the market as a finished product; and of every 500 new products actually introduced, only about ten stay on the market as long as two years. That means that out of every 25,000 "bright ideas" comes only one really successful product.***

* * *

A bit of silver lining, for us, in the late recession was the fact that many industrial buyers—operating with greatly reduced budgets—paid extra attention to our Delta Power Tool Division's suggestions on "Lo-Cost Automation." They discovered (and haven't forgotten) that by combining inexpensive Delta Power Tools with standard automatic controls they could achieve the cost-cutting advantages of automation without making a big capital investment.

*One of a series of informal reports on the operations and growth of the*
**ROCKWELL MANUFACTURING COMPANY**
**PITTSBURGH 8, PA.**
*for its customers, suppliers, employees, stockholders and other friends*

## MANAGEMENT BRIEFS

**Swingline, Inc.,** makers of staplers and rubber bands, has come up with a new gimmick in its fight for control of Wilson Jones Co., producer of tabulating forms and loose-leaf binders. After a bid to buy 100,000 shares at $20 failed, Swingline made a new offer to Wilson Jones holders: It will buy 25,000 shares at $23.75, and give the sellers an option to buy back their stock at the selling price any time between Apr. 15 and Dec. 15.

•

**The Employee's Welfare Assn.** at Dayton Malleable Iron Co. has given $500 to the Ohio Foundation of Independent Colleges. This is probably the first time such employees group charity funds have gone to education, according to the American Assn. of Fund-Raising Counsel.

•

**A consulting psychologist** can help a company in hiring new executives only if the company itself first defines exactly the kind of man it wants and maintains a selection procedure on a continuing basis, students of Harvard University's Graduate School of Business conclude. Their report chides company managers who rely on psychologists' reports as a replacement for their own evaluation of their subordinates.

•

**The coffee break,** a common benefit for office workers, is fast becoming an institution. A National Office Management Assn. survey in the U.S. and Canada finds that 81% of 1,896 companies have had coffee breaks for more than five years, more than a third for more than 10 years. (Only 0.6% have ever dropped the benefit.)

•

**Walworth Co.,** which four years ago waged a campaign to make itself invulnerable to outside raiders, is proving itself as adept at heading off proxy fights from within. Marvin H. Grove, Walworth director who last month mustered forces to oust the present board (BW–Dec.29'58,p52), has now called off the fight in return for directorships on the board for two of his associates.

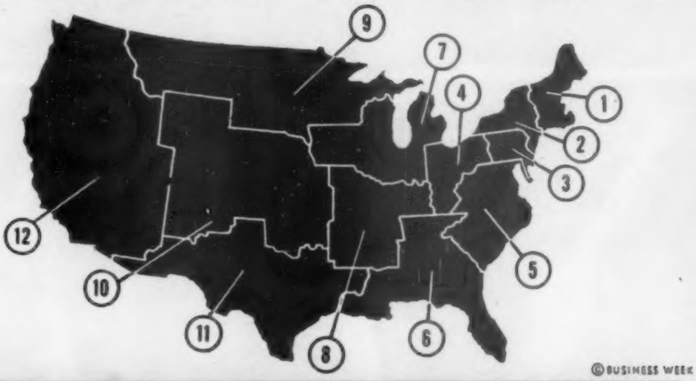
•

**Glen Alden Corp.,** which has been losing money on **Ward La France Truck Corp.** since it bought the company in early 1956, last week got rid of the fire engine maker. Buyer is a group headed by Harris J. Klein, New York City attorney and prominent figure in the fight that ousted Leopold D. Silberstein as head of the Penn-Texas Corp.

## CHARTS OF THE WEEK

### The Income Pattern:
**Business Week's Regional Income Indexes**

### U. S. Incomes: Up 2.6% From Last Year




| Federal Reserve District | % Change vs. year ago | The Indexes Nov. 1958 | October 1958 | Nov. 1957 |
|---|---|---|---|---|
| 1. Boston | +2.9% | 299.77 | 296.82 | 291.46 |
| 2. New York | +0.5% | 319.73 | 321.58 | 318.08 |
| 3. Philadelphia | +3.8% | 317.50 | 317.22 | 305.74 |
| 4. Cleveland | +0.01% | 358.76 | 355.71 | 358.70 |
| 5. Richmond | +4.9% | 391.98 | 389.63 | 373.67 |
| 6. Atlanta | +4.9% | 476.72 | 474.92 | 454.50 |
| 7. Chicago | −0.1% | 364.94 | 358.70 | 365.14 |
| 8. St. Louis | +3.1% | 341.14 | 337.97 | 330.84 |
| 9. Minneapolis | +3.8% | 377.59 | 379.01 | 363.72 |
| 10. Kansas City | +5.7% | 448.29 | 441.97 | 424.00 |
| 11. Dallas | +2.2% | 512.87 | 506.09 | 501.63 |
| 12. San Francisco | +5.5% | 425.18 | 422.02 | 402.88 |
| Nation | +2.6% | 372.34 | 369.79 | 362.99 |

1941=100; adjusted for seasonal, Nov. figures preliminary; Oct. revised.

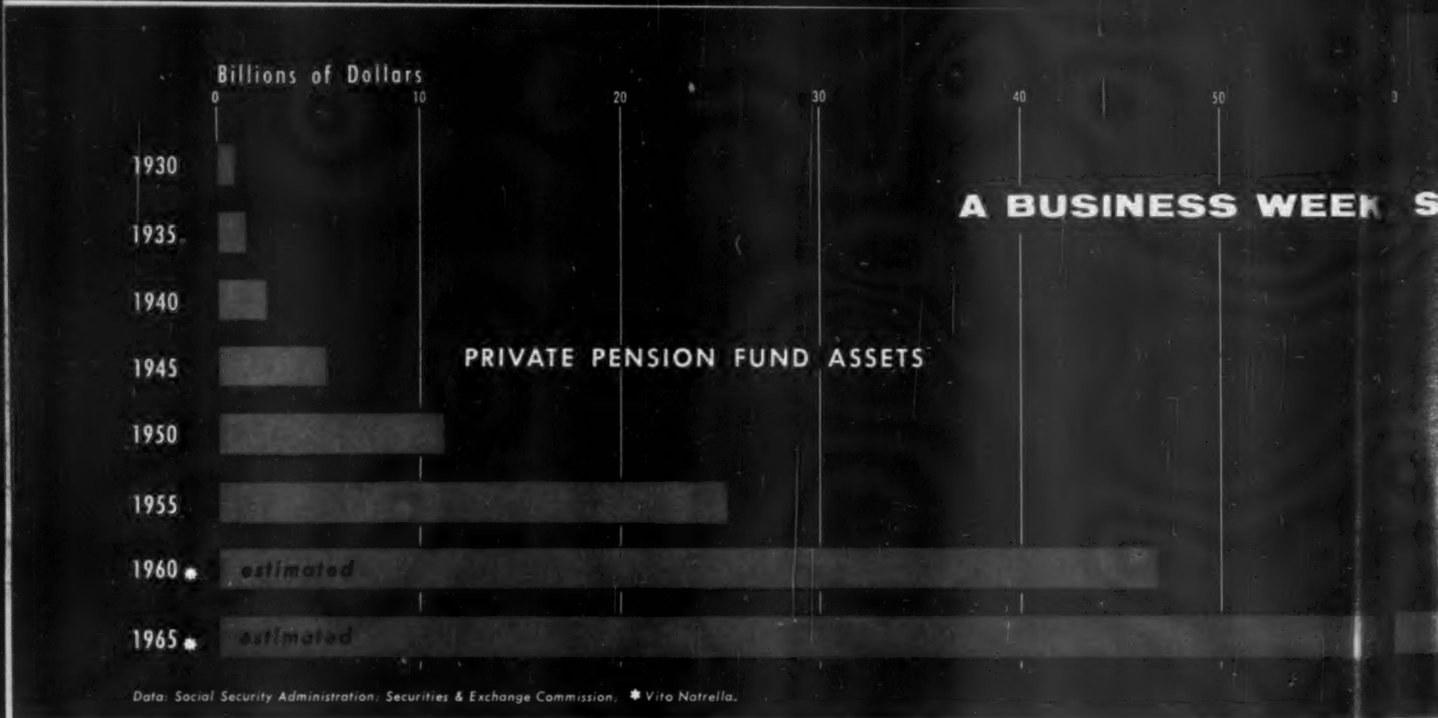
# U.S. Purses Continue to Fatten

U.S. incomes in November, 1958, reached their highest level on record, according to BUSINESS WEEK's Composite of Regional Income Indexes. With a 2.6% advance over November, 1957, the index continued to reflect economic recovery throughout the nation.

Some improvement was apparent in all regions except Chicago, where incomes were still slightly below the year-ago level despite a marked upswing in industrial activity. Kansas City led all other regions in year-to-year gains for the third successive month. Many factors contributed to this region's prosperity: increased farm income, a new construction boom, impressive gains at auto assembly plants, and higher payrolls in other industries and government services.

San Francisco was again close behind Kansas City for year-to-year advance. The high level of construction, particularly of homes, and rapidly expanding defense industries contributed heavily to the improvement in this area. Richmond and Atlanta tied for third place in yearly gains. Both regions enjoyed higher agricultural incomes and booming construction industries. Six regions—Boston, Philadelphia, Cleveland, Richmond, Kansas City, and San Francisco—reached record-high income levels.

From October to November, incomes rose 0.7% for the nation. Chicago registered the biggest month-to-month increase—up 1.7% from October. Settlement of labor disputes in durable goods industries and increased auto production accomplished much of this improvement. All but two regions—New York and Minneapolis—gained over October.

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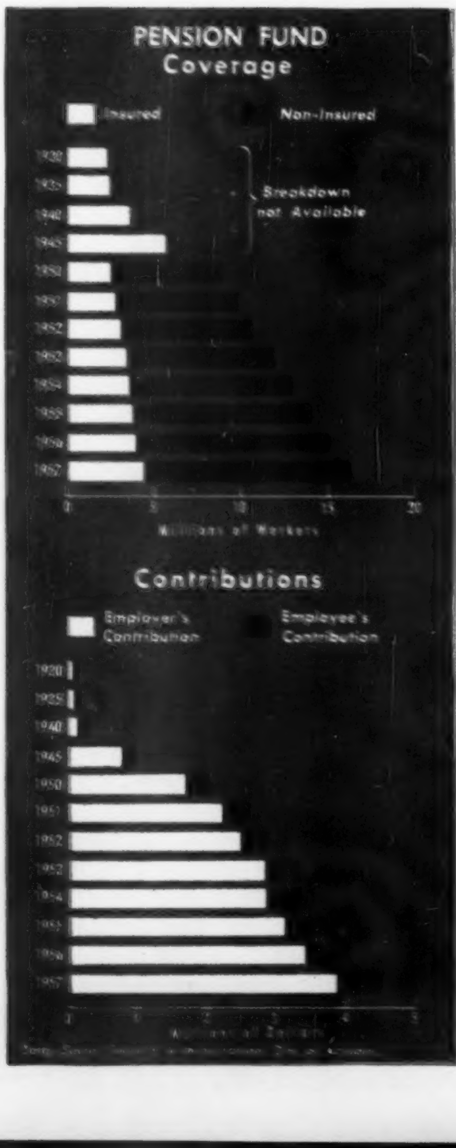


**3**

**COVERAGE of private pension plans is now 16.3-million workers, about one-quarter of the nation's work force.**

**CONTRIBUTIONS to such plans total $4.5-billion a year. Employers foot 84% of the cost.**

# The Startling In

As the quest for individual freedom characterized the 19th Century, it has often been said that the search for economic security has been the great driving force of the 20th Century. The drive has been accelerated by the rising

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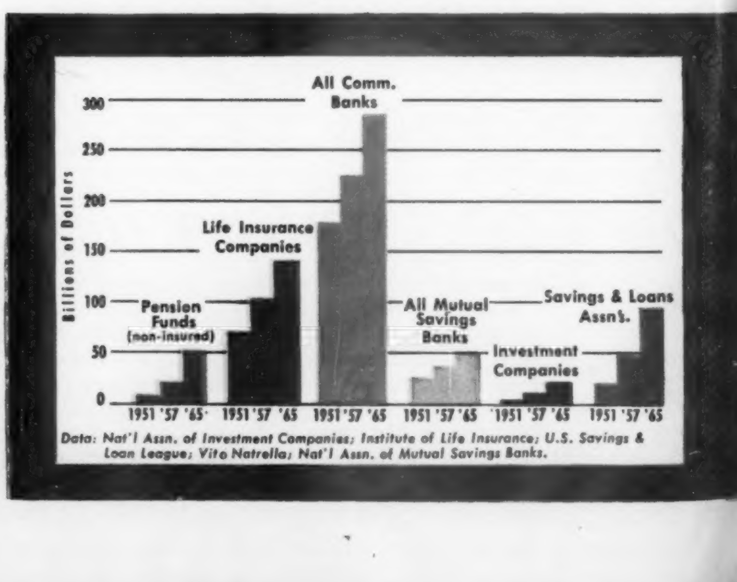
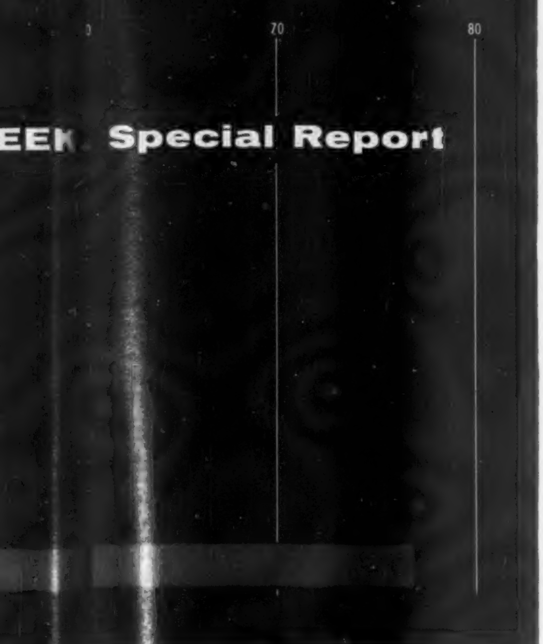
**Pension funds have become a major financial institution. By 1965, they will rank in size with mutual savings banks.**



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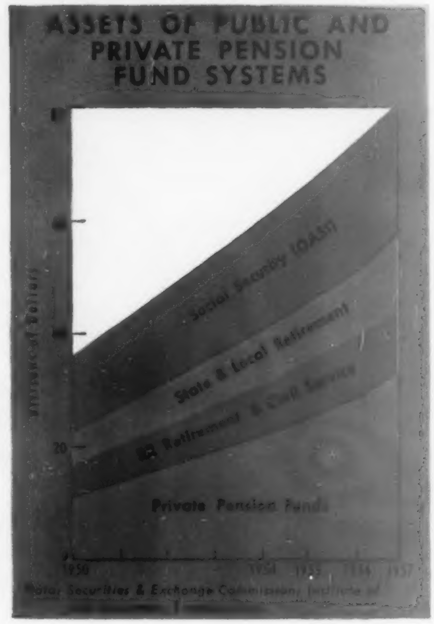
**Private pension funds are skyrocketing. Today, their assets total $33-billion. By 1965, it's estimated they'll reach $77-billion.**




2

**They have become an important supplement to the nation's social security system.**

# ng Impact of Private Pension Funds

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proportion of older people in the population.

In the U. S., the Social Security Act stood for a long time as the great monument to this search. But, the search has produced another institution — the private pension fund — more spectacular in growth, more complex in form, and more exciting in prospect.

These corporate pension funds already wield enormous economic and social power. Yet their growth has been so fast and so hodgepodge in form that the lawmakers, the courts, and business generally haven't really sized up the dimensions or importance of this new giant, let alone come to full grips with it. In this Special Report,

(Continued)

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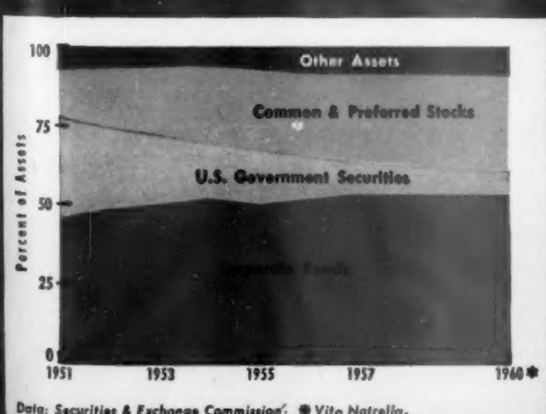
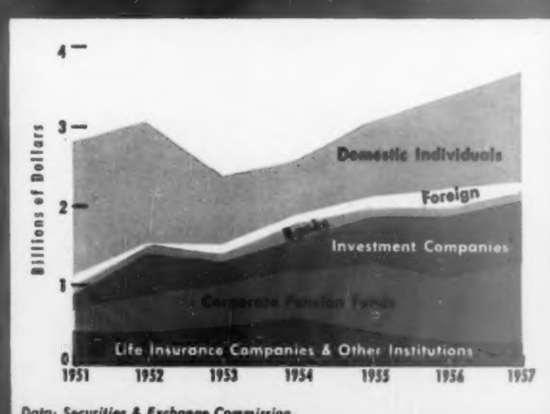
**Most pension money has been invested in high-grade corporate bonds ($9.8-billion) and blue chip stocks ($6-billion).**




**They have become the most important institutional purchaser of stock. Net purchase in 1957 equaled 27% of new stock issues.**



(Special Report starts on p. 88)

BUSINESS WEEK takes the measure of this new force in the economy and its implications for the American businessman. And the impact of these funds on the economy is startling.

• **New Slant**—To the worker, private pensions have taken on new meaning. They're no longer considered a gift bestowed by an employer on his faithful employee, but rather a sort of deferred wage which a worker has earned by his sweat and labor. At the same time, pensions are losing some of their potency as a chain that locks workers to their jobs, and may well turn into a mechanism for giving employees greater job mobility.

More than that, pension funds often represent for an employee the difference between dread of retirement and eager anticipation, the difference between looking forward to a retirement home in Florida, or scraping by on Social Security alone.

**Already 16.4-million workers—a quarter of the total work force—are covered by private plans;** by 1970, the proportion will be close to one out of three. Ultimately, this means a big new class of retired workers, with potent purchasing power and political voice.

The dazzling growth of pension plans is also evidence of a management turnabout: Management has accepted—sometimes gracefully, sometimes not—the concept that it is obligated to care for its employees, not only during their working careers, but ever after.

• **Burden**—For employers, the impact of this change is double-edged. On one side—the most obvious side—pension funds represent a big new bite out of the company till—anywhere from 5% to 10% of payroll—as well as a hefty long-term obligation for the future. On an individual company basis, the cost is steep; General Electric's pension contributions in 1957 were $73-million. **Collectively, pension contributions in 1957 totaled $4.5-billion, with industry picking up close to 85% of the tab.** By 1965, as Vito Natrella, of the Securities & Exchange Commission calculates it, the total annual figure will reach $6-billion.

Not only the high costs of these programs, but the many headache-breeding problems involved in setting up and running pension plans, have many corporate executives reaching for their

*"Private pensions often mean the difference between retirement in Florida or scraping by on Social Security."*


Miltown bottles. For **pensions mean a hot potato for management to deal with over the collective bargaining table.** That involves bringing in a whole squad of experts—actuaries, analysts, and pension consultants—to work out the nuances. A pension plan also has to be nursed over a whole series of Internal Revenue Service obstacle courses.

• **And New Financial Tool**—On the plus side, though, the flexibility permitted in the financing of pension plans has given management a brand-new financial tool. **If handled smartly, this new tool can free up badly needed cash when a business runs into a downturn.**

Squirreling away money for pensions has taken on the dimensions of a new corporate sport; the amounts that have been accumulated to pay off future pensions are enormous. American Telephone & Telegraph Co.'s pension kitty now totals $2.8-billion—bigger than the combined assets of a dozen mutual funds—more than the assets of all but a handful of American corporations. U. S. Steel's fund has over $1-billion.

## Growing Financial Giant

Added together, pension fund holdings totaled over $33-billion at the end of 1957—and this already huge figure is expected to jump to $47-billion by 1960, $77-billion by 1965. In terms of assets, pension funds have become a major new financial institution, dwarfing mutual funds, and moving toward the $35-billion in assets of mutual savings banks, and the $54-billion in savings and loan associations.

• **Footprints on Wall Street**—This new financial institution has already left its footprints all over the securities market. Over three-quarters of the assets of non-insured funds—the important ones from the investment standpoint—have been funneled into corporate securities—$10.3-billion into bonds, $5.3-billion into stocks. By 1965, these holdings are expected at least to triple.

These investments have made pension funds the new fat cat of Wall Street, and a major force in the stock market. No one speaks of stock market movements any more without making a few salaams in the direction of pension funds. **In 1957, pension funds were the largest net purchaser of common stock; the $1-billion worth they bought was the equivalent of close to 30% of all new stock issued.** They squirreled away more than any other financial institution—banks, mutual funds, insurance companies—more than all individual purchasers combined. In a few cases—such as Sears, Roebuck—the company's pension fund has become the company's biggest stockholder.

With their bulging coffers, it's no wonder that pension funds have become the darlings of Wall Street, courted as avidly by bankers, brokers, and insurance companies as a Texas widow. To the insurance industry, they represent $14-billion in reserves, or around 15% of the industry's total reserves. To the banks, pension funds mean multibillion-dollar accounts. The Bankers Trust Co. of New York alone handles over $5-billion worth of pension business.

• **Problems Enough for All**—Yet this new giant is far from being full-grown. It is still in the process of maturing and having its rough edges smoothed off. As it develops, it poses an increasing number of knotty social and economic problems that will take years to solve, and, in the doing, probably upset many long-established concepts.

Management, for example, is already aware that pension costs are mounting so fast that companies may be forced to scrap traditional concepts of retirement age, and reverse all recent trends, by making retirement come later, rather than earlier. Congress has finally become aware that pension funds don't operate in the same public goldfish bowl as banks and insurance companies, and is coming up with laws designed to put pension funds under some sort of public regulation. The courts, too, have some knotty and unique problems to wrestle with on pension funds.

Meanwhile the economists are working their charts and projections overtime, exploring the many-sided impact of pension funds on the economy—for one example, the changes they have caused in traditional savings patterns. The political scientists are busy digging into such questions as whether pension funds won't eventually wind up controlling a sizable number of corporations—including the ones that created them. The workers, as always, will worry whether their pot of gold at the end of the rainbow will actually materialize.

# Behind the Big Push

**The reasons why private pension funds have burgeoned so fantastically in the past 10 years become clearer when you dig a little into pension history.**

**Private pension plans are hardly a new phenomenon on the American scene; the earliest, the American Express Co. plan, dates back to 1875. But the needs and philosophy have changed radically.** Partly, this is because of the sweeping improvements in medical science which have greatly extended the life span.

The change in philosophy has been just as striking. Until the Depression, workers pinned their hopes for old age security on the frail reed of individual thrift. Then, with passage of Social Security, their retirement plans were placed squarely on the government's broad shoulders. Now industry is saddled with a big part of the responsibility.

• **Simple and Informal**—These later considerations had no part in the early plans. These emerged as a simple concept, brought into focus by the fact that many of the country's largest corporations finally had enough age on them to acquire a sizable number of oldsters on their payrolls.

It soon became apparent to these companies that they could achieve better operating efficiency by **getting rid of the older, inefficient workers, and replacing them with more productive younger men.** And if a company could afford it, it was better to pension off a worker when his useful days were over than throw him out into the street. **In time, management saw other advantages:** It was a way to reward employees for long and faithful service as well as honey to attract new workers. It was also a tool to lock employees to their jobs and shut the union out.

**Most early plans were informal, high on eligibility qualifications, and low on benefits.** Employees had no rights in the plans; the courts considered them gifts, not wages, and the company could turn payments off and on like a faucet. Companies generally footed the entire pension cost, but it was an I.O.U. they rarely worried about until a pension actually came due. Even then the concern wasn't too great, for few employees stayed around long enough to collect.

**By and large, these early plans were the earmarks of really big business**—few small outfits could afford them. And most of the plans were intended for white-collar workers. In 1925, with some 400 plans in operation, a third of the 4-million workers covered were accounted for by four corporate giants, U. S. Steel, the Pennsylvania and New York Central RRs, and AT&T.

Unions, on the whole, washed their hands of company pension plans. A few unions—such as the Granite Cutters and the Typographers—soon after the turn of the century started their own, financed out of membership dues. Labor leaders, led by Samuel Gompers, saw company plans as a chain for workers today, a mirage tomorrow.

The public was likewise apathetic. The dominant feeling then was that the country's strength lay in the self-reliance of the individual; a man was supposed to do his own saving for a rainy day, including retirement.

• **Three-Stage Rocket**—The Depression


*"Private pension funds have become the darlings of Wall Street, avidly courted by bankers, brokers, and insurance companies."*

shattered this philosophy. Workers who believed that hard work and ability always paid off, queued up before the same soup kitchens and manned the same apple stands as the shiftless and lazy. The bitter 1930s also put a vast new premium on the goal of security and the notion that what the individual couldn't provide for himself the government should. This change in philosophy set the stage for the Social Security Act.

**Passage of Social Security in 1935 gave private pension plans a shot in the arm.** Many companies, which previously couldn't afford such plans now could use OASI as the cornerstone on which to build a private plan.

**World War II was a second major landmark** in the spread of private programs. **Pensions were exempted from the wartime freeze on wages and salaries** and quickly became the big carrot companies used to compete in a tight labor market. The fantastically high tax rates during the war, coupled with the fact that pension costs were tax deductible, added to their management appeal. By 1945, 5.6-million workers were covered.

**But the major push for pensions came in the prosperous postwar years,** when labor philosophy concerning pensions took a 180-degree swing and union leaders decided that management was just as obligated to provide for workers' retirement as for the repair and retirement of equipment. One reason for the unions' shift in signals was their awareness that they now had the muscle to make these demands stick and that industry had the money to pay for pensions. What the unions' pension drive basically achieved was to accelerate by 5, 10, or possibly 20 years management's move to provide pensions for blue-collar as well as white-collar workers.

• **Into the Blue**—By a series of coincidences, 1949 turned out to be the year when the unions' great drive for pensions really jelled. By that time, the economic setting was ripe. The cost of living had leveled off, and little heat could be generated for wage increases; so union leaders made pensions their No. 1 demand. Then the National Labor Relations Board, in the Inland Steel Case, held pensions subject to collective bargaining—a decision affirmed in 1949 by the Supreme Court.

**That same year the Steel Industry Board,** appointed to help settle the dispute between the steel industry and the United Steelworkers, translated legal precedent into economic philosophy. It bought the unions' contention that providing workers' pensions was a basic management responsibilty, and **recommended that the steel companies set up pension and welfare funds** for the USW members.

Then the rush was on. The steel industry capitulated to the unions' pension demands. Auto makers followed. Pension demands swept through the mass-production industries, then spread to other fields.

The legal contract took the place of the old, informal pension arrangement.

In 1950, 8.6-million workers were covered by pensions; three years later the total had jumped to 12-million—nearly a 50% increase.

## Variegated Pattern

A hodgepodge of patterns emerged from this bandwagon rush. The bulk of the contracts were between the union and a single employer, but in some cases—as in the trucking and garment industries, composed of many small units—industrywide contracts became popular. In these, employer contributions were pegged to a percentage-of-payroll or cents-per-hour formula and all the money pooled into a central pension fund. All pensions were paid out of this fund, and union workers could

those startling private pension funds

shift from employer to employer within the industry without losing pension credits.

While there are some easily recognized and broad differences between pension plans, most individual plans are so complex that the variations can be spotted only by a Philadelphia lawyer. Actually, the only features common to just about every plan in operation today are those imposed by the Internal Revenue Service under its yardstick for tax exemption (below).

• **Typical**—Once a plan runs the IRS hurdles, the other details and eventual cost depend on such factors as company profits, size of the labor force, industry employment and wage trends, and union demands. While no two plans are alike, some general trends are basic. **A typical plan might have features something like this:**

To enter the plan, **a minimum age or period of service** would be required—say, a 25-year age minimum, and two years' service. This is to eliminate coverage of employees subject to high turnover. New employees over 55 would not be included mainly because the costs are prohibitive.

The plan would be geared to pay **full benefits to employees retiring at 65 with 25 to 30 years service.** Their benefits, including Social Security, would amount to about 50% to 60% of their average salary through the years, with the exact amount based on a formula of earnings and service. If the plan were union-negotiated, the chances are that it would provide the same-sized pensions for all employees with equal service, even if their earnings varied. **In a union-negotiated plan, the company would foot the entire pension bill. Many company-instituted plans would also be noncontributory for employees.**

Early retirement would be permitted at 60, possibly 55, with reduced benefits. But workers who left the company before qualifying for normal retirement would forfeit all pension rights.

## Complex Finances

Meeting the costs of this typical pension plan is an expensive, not to say staggering, proposition—and all its complications are not immediately apparent.

The simple figures are staggering enough when you multiply them by a sizable number of employees. It costs roughly \$15,000 to buy a \$100-a-month annuity for a 65-year-old worker; \$45,000 for a \$300-a-month pension. The company can handle the cost by setting aside funds during the employee's working life; or it can pony up the money after the worker retires.

But the simple figures are just the beginning. Financing pensions isn't just a question of meeting the costs the first year or the second, but of providing money to pay benefits to a growing number of pensioners 20 and 40 years from now. And **since pensions are basically annuities, a company soon finds itself knee-deep in insurance-type complexities.**

So a company that gets into pensions sees ahead of it a long-range cost picture like this: With a stable work force and an equal number of pensioners added to the rolls annually, pension costs will keep on rising until the number of new pensioners added is offset by an equal number of deaths among existing pensioners. And as actuaries figure it, **that far-off cost peak isn't usually reached until 40 years.**

Right now, over-all pension costs are just starting up this cost escalator. In 1957, pension contributions totaled \$4.5-billion, payments \$1-billion.

• **Finding the Right Key**—That excess of income over outgo is one reason why pension funds are snowballing so fast. The other reason is that **business now seems to have found in the funding method of financing pension obligations a major key to its financial problems.** It arrived at this solution only after a lot of trial and error.

One early method that didn't pan out well was "pay-as-you-go" financing, with monthly pensions made just another payroll expense. This made sense for some companies, especially big outfits with stable earnings; a company could earn a fatter return on money invested in its own business than in a pension fund portfolio. But for most companies, pay-as-you-go has some deadly booby traps. Costs tend to be small at first but snowball fast. Then if a company is hit by a business recession, it faces heavy pension outlays with little in the till to meet them.

Another early method lost favor for a different reason—the so-called "book reserve" method of setting up balance sheet reserves for pensions by charges to surplus or earnings. Its defect: No tax deduction is permitted on the funds transferred to reserves. A third method—"terminal funding," which usually means paying a lump sum into the pension fund when the employee retires—is now being shelved because it's not flexible enough.

**Today funding has won out; about two-thirds of all plans are funded.** Both management and labor feel it's the soundest way to insure that pension benefits will be paid. In fact, many unions are determined to write funding provisions into all future contracts.

### Ins and Outs of Funding

But if funding is the guts of pension financing and the real reason pension funds have grown so big, it has its own complications, and is a tricky business for the uninitiated to understand.

Its basic premise is simple enough. It's that if a pension obligation exists, the cost of a worker's service is actually

## IRS Ground Rules for Funds

It's the Internal Revenue Service that now sets the only really major federal rules for company pension plans—through its power to grant or deny tax-exempt status to the funds and to approve pension contributions as tax deductions.

To get the IRS green light on taxes, a pension fund must:

• Include a substantial percentage of employees—generally around 70% in any employee category. And a plan can't be discriminatory; it can't, for example, be limited solely to executives or supervisors.

• Be in writing and communicated to employees; and be intended as a permanent plan. While a company can terminate a plan or reduce benefits if it runs into financial trouble, IRS will revoke the tax exemption if it can show that the company never meant the plan to be long-range.

• Calculate employers' contributions and workers' benefits on some sort of actuarial basis. This prohibits, for instance, the use of funds forfeited by individuals leaving the company to hike the benefits of others. Such funds can be used solely to reduce employers' contributions.

• Make it impossible for any funds deposited in a pension trust or with an insurance company to revert back to the company. The object is to insulate the pension fund from the company and make sure that the monies are invested only in the fund's best interest. Also, it prevents such deductions from being simply a tax dodge.

greater than the amount of his current wages—and that this extra amount should be set aside on an annual basis.

It's in figuring this annual sum that the actuaries get their innings. First they compute, for the pension group, how much the eventual pensions will probably come to—taking into account such factors as labor turnover, mortality rate, and interest on pension monies. Then they figure "current service cost." That's the amount of payment required annually—plus earned interest—to pay pensions to survivors based on their service from the time the funding starts.

• **Burden of Past**—But at that point the actuaries are just beginning to sharpen their pencils. **For the worker's pension has to include his service before the pension plan started.** So the actuaries figure "past service cost"—the amount that would have accumulated up to that time if the plan had been operating. And in figuring this, the actuaries don't stop at the annual sums that would have been paid in; they add in the interest that would have been piling up year by year.

**For a plan to be "fully funded," a company must pay off this past service cost as well as meet the current costs. It's obvious that this involves some staggering obligations.** U. S. Steel, for example, in connection with its pension agreement with the Steelworkers in 1951, took on a $496-million past service liability. That was equal to 25% of its invested capital, and $1,900 per covered employee.

**Luckily, IRS tempers justice with mercy, and allows companies a long period to pay off this past service cost. They can pay it off at a rate of as high as 10% a year or spread it over 20, 30, 50 years or a longer period.** U. S. Steel, like many other companies, set out to liquidate this liability in the minimum time. Some plan on a longer period—for example, Aluminum Co. of America set a 35-year target for its pension fund for hourly-rated employees. Still others feel it's enough to pay off only 80% of their past service cost, figure their conservative calculations give enough safety margin. Quite a few outfits just pay the interest on past service and let the principal go.

## New Type of Nest Egg

When a company makes a decision to go into the process of full funding, it sets up something in the nature of a mortgage—and a sizable one—on its future operations. It's a type of financial operation that can add little or nothing to productivity, and the obligation can be liquidated only out of accumulated reserves or future profits.

Yet this new type of mortgage gives management a spanking new financial tool, one it's just learning how to handle. For the lack of any IRS time limit gives management some leeway. **In effect, past service liability can work like a giant open-end mortgage which can be paid off during the good years and even provide a nest egg for the lean ones.**

Suppose a company had a $500-million past service obligation which it was funding on a 10-year basis. That would mean setting aside $50-million a year (leaving interest out of the calculation). In high-profit years, this makes good sense; after-tax profits would be down $25-million, but the tax collector would get $25-million less.

Then after five years, suppose the company hits rough financial weather. It could shift to a 30-year funding basis for past service, while maintaining present service payments. That preserves the financial integrity of the pension plan, yet slices the annual contribution in half. Earnings look better, and the company conserves cash.

Or it could go further, as U. S. Steel did. Funding on a 10% basis, (which actually boils down to an 11½-year period) the Corporation reduced its past service liability by $297-million from 1950 through 1957. This past year, with earnings down, it decided to forego past service funding, used the money instead for new plant and equipment.

**Of course, a company can never withdraw past contributions already made to the pension fund. But in a dire cash pinch, it can make a bookkeeping shift**—transferring, say, $25-million from the accumulated past service fund to the present service account as the current year's present service contribution.

This could permit a company to skip its present service payment and might help put black ink on its income statement in a bad year.

## Battle of the Plans

When a company has decided on funding for its pension plan, it still has another choice to make. For funding can be achieved in two major ways:

- By putting contributions into a trust fund, as U. S. Steel does, or
- By taking out insurance policies on its prospective pensioners that will provide annuities at their retirement.

The multiplication of pension funds in the past two years has brought a hot **competitive battle between these two types of funds—which means, in effect, between the banks and insurance companies that administer them.** For the non-insured, trust-fund type plans are usually handled by banks, the insured type by insurance companies.

• **Tide of Battle**—In the 1930s, insurance companies had the lion's share of company pension business. Even today there are 23,000 insured plans covering 4.8-million workers; and pension reserves make up about 15% of over-all reserves of U. S. life companies.

But **insurance companies have been losing ground to the non-insured plans administered mainly by banks. Today it's estimated the business splits 60-40 in the banks' favor.**

**The reasons are many.** One is that non-insured plans are more adaptable in terms of flexibility of contributions; and details can be changed more easily. Insurance companies have the handicap of paying what amounts to a 7½% tax on their earnings, while non-insured plans pay none. State laws put a strait jacket on life insurance company invest-

# Which Way to Fund?

**Funding a company pension plan** can be accomplished in various ways—through insured plans, non-insured plans, or some hybrid of the two.

**Non-insured funds**, with company contributions put in a trust fund, are usually administered by a bank, sometimes by company officials or a joint labor-management group. The guarantee of employees' pensions depends on whether the company puts in enough money, and whether actuarial assumptions are sound.

**Insured plans**, under which the company takes out insurance policies on its prospective pensioners that will provide them with annuities at retirement, come in many varieties. Under all these, the insurance company guarantees the pension payments—assuming the company pays the premiums. Most common are **individual annuity, group deferred annuity, group permanent life, group deposit administration.** Group deposit, something of a hybrid, has gained popularity. Employers' contributions are deposited with an insurance company, but not allocated to individuals; they accumulate to buy annuities when employees retire, permitting more flexible benefits.

**Hybrids include split-funding**, now gaining headway. Part of the plan is insured, the rest put in a trust fund to supplement the insured benefits.

**those startling**
**private pension funds**

ments, while non-insured plans can go in heavily for such high-yielding investments as common stock, leasebacks, oil royalty deals.

Insurance companies are losing to the banks not only some of their big customers, but some of the small company business on which they had a near-monopoly. Small companies used to shun bank-trusteed plans because administrative costs were too high and the funds too small for adequate investment diversification. This barrier fell in 1956 when IRS permitted banks to commingle any number of small pension funds and administer them as a unit. This ruling opened the bank gates to small company business.

• **Fighting Back**—The insurance industry hasn't taken these blows lying down. This hot competition with banks has added steam to the insurance drive to eliminate the federal tax on pension reserves. Some companies are trying to get the states to loosen the investment strait jacket. And Equitable Life Assurance Society—which has a third of its business in pensions—wants the New York insurance law amended so insurance companies can serve as trustees for pension funds (BW—Jan.24'59, p118). The fight is also behind the development of new insurance plans and policies—such as split-funding—to woo company customers. And it's a factor in the push by some insurance companies for the right to sell variable annuities—which banks can already provide.

## Measuring the Impact

The fact that the big banks and insurance companies find the pension funds a prize worth battling for is just one more indication of how fat the funds have gotten and how fast they've grown. In 1940 there were a mere 2,000 plans with $2.4-billion in assets. Today, with over 40,000 plans, assets make up a huge $33-billion-plus pile.

The funds have become the country's big new financial institution, and they are growing bigger at the rate of over $4-billion a year.

Just where this new financial giant will stop growing, no one can say. Vito Natrella of SEC figures the funds will more than double in six years, to a $77-billion total. Some see a leveling off around the $100-billion mark. The problem of estimating their future is compounded by the fact that only one-quarter of all workers are now covered; that leaves wide room for growth. If pension benefits are boosted as expected, even these current growth estimates may seem quite low.

• **Special Impact**—Not all of the $33-billion salted away in the pension funds has the same impact on the economy. **The special impact of the funds as a financial institution is concentrated mainly in the $19.3-billion stacked up in non-insured plans.** That's because the $14-billion in pension reserves held by the insurance companies is commingled with their other reserves, and all their funds are invested on an overall basis.

So, to assess the special impact of the funds, it's necessary to take a close look at the $19.3-billion in the non-insured plans.

• **Banks' Stake**—About 75% of this $19-billion is handled and invested by banks as pension trustees—with most of the business sewed up by New York banks.

**Six New York banks together**—Bankers Trust Co., Chase Manhattan, First National City, Hanover, and Guaranty Trust Co. and J. P. Morgan, now planning a merger—**handle close to $10-billion worth of pension assets, well over half the total held by all banks.** Most funds, like AT&T's $2.8-billion Goliath, are handled by a single bank; but some divide up the kitty. General Motors, for one, splits its $677-million fund among seven Detroit banks.

The banks have grabbed off this king-size share of the non-insured business largely because of their long experience in handling personal trusts and their large and well-trained investment staffs.

• **Lone Wolves**—Yet a number of funds—those of General Electric, U. S. Steel, and Sears, Roebuck among them—are managed by company trustees or separate corporations. Companies usually go it alone in this way because they already have the necessary investment experts on their staffs. GE's $868-million pension fund (valued at cost), for example, taps the brains of some 14 investment analysts and experts in the company treasurer's office.

## New Management Jobs

Besides creating a hefty new financial institution, the rapid climb of the pension funds is raising a host of new management problems—not only for fund trustees who manage the money, but for top company management.

Managing one of these fast-growing funds might seem to an outsider to be no different from handling any other large and lively investment portfolio. And, of course, many problems are the same. But **there are sizable differences that make pension fund management an art by itself.** For example:

• Since pension funds are tax-exempt, investment strategy can forget about taxes on interest and dividends, or capital gains. For the same reason, tax-exempts hold no charms.

• There's a constant flow of money into the funds—and this inflow, as well as the amount to be paid out, can be calculated accurately for three to five years ahead. This makes a technique like dollar averaging a natural.

• Since investments are for the long haul, pension trustees can go heavily into such things as leasebacks, mortgages, oil leases, and not worry too much about liquidity of their bonds and stocks.

• **Goals**—Investment goals are different, too. A fund's basic aim is safety of principal, plus a minimum return—most actuaries now figure on a 2.5% return. So anything beyond that is so much gravy; it permits a company to cut down its fund contribution and maintain the same benefits, or make the same contribution and hike benefits. Dr. Paul Howell, pension consultant, calculates that if a fund can get a 3.5% return over the long haul instead of the assumed 2.5%, benefits could be increased 25%.

It's no wonder, then, that companies put a premium on trying to better that assumed minimum yield. Management also figures it will have to hike benefits, anyway, as time goes on—and a fund

## These Men Help

**BRIAN P. LEEB is senior vice-president and director of the Trust Dept. of New York's Bankers Trust Co.; he helps direct the investment of the Bell System's $2.8-billion pension fund. Until recently, all of the Bell pension assets were invested in corporate or government bonds.**

# Run the Country's Biggest Pension Funds

**STANLEY D. NOBLE is executive director of the Sears Profit-Sharing Fund, which at the end of 1958, had $1.06-billion in assets. Securities holdings of the fund included one-quarter of the outstanding stock in Sears, Roebuck & Co., making it the company's largest stockholder.**

**EDWARD G. KINLOCK, manager of the Trust Investment Operations Dept. of General Electric Co., helps guide the investment of pension assets which at the end of 1958 totaled $868-million (at cost). About one-third of this GE pension money is invested in common stocks.**

**HARVEY MOLÉ, vice-president investments of the U. S. Steel & Carnegie Pension Fund, Inc., helps manage some $1.1-billion in assets. The fund had a $496-million past service liability in 1950, but U. S. Steel has since put in enough money to reduce this by $297-million.**

with high yields as well as good appreciation gets a head start toward meeting these future demands.

• **Latitude**—Pension trustees also have a wider investment latitude than most trustees. Their only real legal hobble is in the IRS rules, which prohibit any transaction between the fund and the employer company unless it's clearly at "arm's length." A recent federal law prohibits funds from investing more than 25% of their assets in employer-company debentures (as distinguished from company stock, which such funds as Sears, Roebuck's hold).

Otherwise, the only restrictions are those the company lays down, and most corporations give plenty of elbow room—usually only limiting purchases of company stock, or requiring certain proportions of bonds, stocks, or insurance company "legals." A New York State Banking Dept. study showed that of 1,024 bank-trusteed plans, 702 had no restrictions at all.

## Hiring Out the Money

With such freedom, pension fund investment policy ranges all over the financial map. Some funds are 100% in common stock; others, among them the United Mine Workers and Amalgamated Clothing Workers funds, are heavy in government bonds.

Basically, though, the typical pension fund portfolio looks something like that of a balanced mutual fund. Here's what the Securities & Exchange Commission's 1957 breakdown of pension fund holdings showed:

| *Type of Investment* | *Amount* | *Percent* |
|---|---|---|
| Corporate bonds | $10.3-billion | 54 |
| Common stocks | 4.8-billion | 25 |
| Governments | 2.0-billion | 10 |
| Preferred stocks | 0.6-billion | 3 |
| Real estate, oil leases, cash | 1.5-billion | 8 |

These patterns continually shift as price-yield ratios and money market conditions change. In 1951, for example, government bonds accounted for 32%, common stocks for only 12%.

• **Old and New**—Corporates have long been the mainstays of the funds because of their stability and good yields. Right now, the funds buy many corporates through private placement, and go more and more into convertibles.

Funds are also venturing into new fields. **Oil wells** are a fairly new investment medium, but several funds—such as U. S. Steel's, which has over $30-million socked away in oil and gas payment and royalties—have found them very profitable.

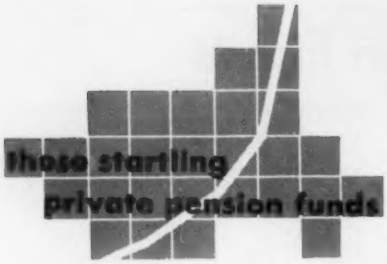
**Mortgage investments** are another new area. While they currently account for only 2% of total holdings, such pension experts as Esmond B. Gardner, vice-president of Chase Manhattan Bank, suggest that mortgages might well comprise 15% to 25% of a fund's total portfolio.

J. D. Lockton, treasurer of GE, is another advocate of mortgages as long-range investments for pension funds—because they have good yields, are noncallable, and often are available at handsome discounts.

But in the past few years mortgages have had to contend against high yields of corporate bonds and the lack of experience of many fund managers in handling or evaluating mortgages. There are signs now, though, of a heavier swing into mortgages; in fact, one big pension fund right now is in the market for a $50-million commitment.

One new step that will help push pension funds into mortgages is a new technique, developed by Instlcorp, Inc., of New York, a subsidiary of the investment company owned by New York State's mutual savings banks. Instlcorp creates a variety of serial notes, backed by a specific package of FHA and VA mortgages, and makes them available to pension funds (BW—Aug.24'57, p101).

**Leasebacks** also attract the funds because of their long-term nature and their 5% to 8% yields, and because the fund winds up owning the property when the lease finally runs out. GE's pension fund, for instance, has gone into leasebacks in a sizable way; its holdings include a string of Sinclair service stations. And General Tire & Rubber Co.'s pension fund owns part of the physical




properties of the Don Lee Radio network under a leaseback.

**Commercial paper** is a brand-new investment medium. The Sears, Roebuck fund, for example, put \$58-million into top-grade paper in 1957, figured it provided a better yield than government bills, as well as good liquidity, while the fund waited out some new long-term commitments.

• **Diversification by Proxy**—Mutual funds are also an outlet for pension funds. This is true mainly of the smaller funds, which don't have resources enough for adequate diversification on their own, so buy it ready-made. The National Assn. of Investment Companies reports that at the end of September, 1958, 2,584 pension funds had invested \$65-million in mutual funds. This included two companies that invested 100% of their pension funds in mutuals.

## Stock Market Splurge

But by far the most striking impact of pension investment centers in its heavy—and increasing—buying of common stock in recent years. In 1957, pension funds invested around \$1-billion—37% of net receipts—in commons. This made them the biggest institutional buyer of stocks on Wall Street. And they are now stepping up the pace.

Though the average fund puts about one-quarter of its money into commons, some go much deeper: GE has 32% in commons; Sears, Roebuck, 76%; Bethlehem Steel, 66%; du Pont, 35%.

The splurge in commons came mainly because of their high yields—and the results show up graphically in the SEC figures. In 1951, with stocks accounting for 12% of fund portfolios, the over-all yield was 3.05%. By 1957, with stocks 25% of total portfolios, average yield had risen to 3.84%. Some funds report an average yield, based on cost, of well over 6%. The funds' view of commons as a good hedge against inflation is another potent lure.

• **Change of View**—The switch into commons has come rapidly. A decade ago, in 1948, bankers were cautious about commons and had put only 10% of the funds into them. One factor that helped change the bankers' attitude was the action of the Federal Reserve Board Banks Retirement System in 1949, permitting its fund to make an initial commitment in stocks. Then in 1950 New York changed its trust laws to allow trustees to invest up to 35% of the trust portfolio in common stocks; and amendments to other state trust laws opened the doors for personal trusts to invest in commons.

The 1953-1956 stock boom, plus the current one and the renewed fear of inflation, pushed many more funds into commons. Only last summer, the Bell System authorized Bankers Trust Co. to invest up to 10% of Bell's pension funds in commons—the first time it had permitted any purchase other than bonds. Several union funds followed.

• **Blue Chips Favorites**—Most of the pension funds stick closely to blue chips. A study made for the Senate Committee on Banking and Currency a few years ago showed that **pension funds concentrated one-quarter of their total stock purchases on 25 of the most popular blue chips.** The 1955 New York State Banking Dept. study of holdings of bank-trusteed funds showed the same preference. The 10 most popular top holdings were all market favorites.

Just how broad is the list of blue chips held by the funds is difficult to determine. Many Wall Street pros figure the range as broad as 200 issues, but feel there's a sizable concentration on 100 stocks.

This doesn't mean, however, that fund managers are wedded to any given issue. "When the prices get out of line, we hunt for lesser-known securities, or switch to other investments," says one fund manager. And all managers don't see eye to eye. Recently, one big New York bank sold Standard of Indiana from its pension funds while a neighbor across the street was buying.

• **Market Stabilizer**—On an over-all basis, though, pension funds lock away more stock than any other institutional investors. **The Senate study showed that pension funds purchased \$4.60 of stock for every \$1 sold. This far outdid the mutual funds,** which purchased \$1.60 for every \$1 of stock sold.

It is already apparent that the heavy fund purchases of stock have had two immediate effects on the stock market.

• Their constant buying—concentrated on a fairly limited range of blue chips—has created some "upward bias" on the prices of these securities.

• And pension funds tend to have a stabilizing effect on the market. At the Fulbright hearings on the stock market, witness after witness, including Winthrop H. Smith of Merrill Lynch, Pierce, Fenner, and Smith, attested to this.

Dorsey Richardson, former chairman of the executive committee of the National Assn. of Investment Companies, taking the same view, explained the

## These Men Are

VITO NATRELLA, of SEC, projecting pension fund growth into the future, figures that in six years they will more than double their assets, to a \$77-billion total.

funds' influence this way: ". . . Institutional investors are cash buyers, not margin buyers. They have long-term investment objectives and are not subject to panic selling in the face of market decline, and not harried by short-term fluctuations. . . . Their approach is professional. They do not follow stock market prices up. . . ."

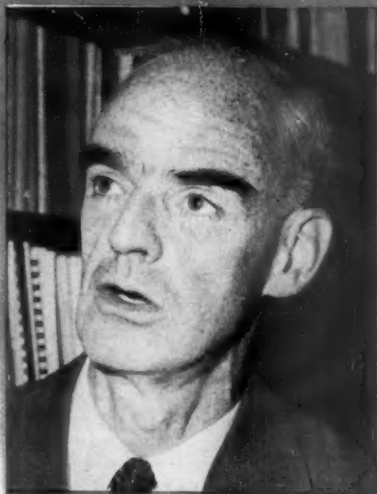
## How Much Company Stock?

Besides the problems that worry other investors, pension fund managers have a few special ones of their own. One of the most ticklish is the question of investing pension funds in an employer's own securities. Many companies are dead set against such a policy, and most bank trustees feel that anything more than a very modest investment of this sort would be unwise. Such an investment, says Canby Balderston, vice-chairman of the board of governors of the Federal Reserve, "places employee funds that they should be able to rely upon in a 'rainy season' in the same company on which they depend for their jobs and livelihoods."

Critics argue that such investments permit a pension fund to be used as a captive source of funds for the employer company—and that if the buying continues, the pension fund may wind up with control of the corporation.

• **Case of Sears**—That's just what happened in the case of Sears, Roebuck, where the profit-sharing pension fund has been buying Sears stock at the rate of \$50-million a year. At the end of 1958 the fund owned over 19-million

# Probing Into Problems Raised by Pension Growth



DR. ROGER F. MURRAY heads National Industrial Conference Board study of wide impact of rapid growth of pension funds on the economy of the U. S.

DR. ADOLPH A. BERLE, JR., of Columbia Law School, is concerned about how increases in corporate stock holdings of pension funds affects private property.

ROBERT TILOVE, pension consultant, has made a study for the Fund for the Republic on how pension funds are wielding power given by their stock holdings.

shares, worth around $750-million at market. **This huge block not only made up 74% of the pension fund's total assets, but amounted to 26% of all outstanding Sears stock, giving the fund effective voting control.**

That's why the Sears fund came in for sharp questioning before the Senate Committee investigating the stock market boom in 1955. Committee members were also worried that the pension setup could perpetuate management control of the company—because Sears directors appointed the fund trustees, usually company officers, and the trustees in turn always voted the fund's stock for management.

**Sensitive to this criticism, Sears revamped its pension setup last year.** An independent research organization is now to poll the 95% of Sears employees with vested rights in the pension plan to find out how they want to vote the fund's Sears stock that is credited to each of them. The trustees then are expected to follow these instructions. Only the nonvested shares—some 5% of the fund's Sears holdings—are voted at the trustees' discretion.

• **Minor**—Aside from Sears and a few small companies, purchases of company stock do not as yet represent a major problem. The SEC found in 1957 that of the $4.8-billion pension monies invested in common stock (at cost) only $584-million, or 12.3%, had been put in the employer's stock. Subtract the huge Sears block, and the percentage shrinks to less than 3%.

An even thornier question for fund trustees is that of buying securities in competitor firms. So far these trustees have few qualms about such investments, look upon them simply as another security. Bell System funds own General Telephone securities; GE owns Westinghouse bonds; Sears has owned Montgomery Ward stock. Yet, trustees are aware this may become a serious problem in the future.

## Controlling Companies

**Already, one phase of this problem is furrowing many brows. It's the question whether pension funds won't eventually gain control of some of the companies whose stock they own.** Known cases are few as yet—one is the pension funds of the Springfield (Mass.) newspapers, which own 79% of the stock in Atlas Tack Corp., a manufacturer of tacks and hardware, 70% of the stock in Exchange Buffet Corp., a cafeteria chain, and 87% of Longchamps, Inc., restaurant chain.

One factor, though, tends to keep this sort of thing at a minimum: **Most pension fund money is invested in blue chip companies, which usually have large amounts of stock outstanding.** For example, the most popular holding of bank-trusteed plans in New York three years ago was Socony Mobil. Yet, the collective pension holdings of 30 big banks represented only 2.6% of all Socony stock.

• **Not Power-Hungry**—Talk to the average pension trustee, and you find him very leery about using his power to jockey for position or influence. Most trustees shy away from the very idea; they're keenly aware of the public reaction and regulation that might result.

This doesn't mean, however, that pension funds play a totally passive role; most trustees do vote the fund's stock—and usually for management.

"If we didn't like management, we wouldn't have bought in the first place," one trustee explains. **When a fund sours on a company's management, the normal policy is to sell out its holdings.** Yet there have even been cases where pension funds helped finance proxy fights to oust management.

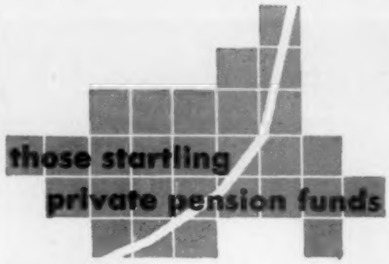
• **But a Strong Influence**—Pension funds wield, in any case, a very subtle influence—though it's not very different from that of other big financial institutions. Here's how the manager of one fund describes it:

"As part of our investment process, we usually have one of our analysts call on executives in the companies in which we hold a sizable position, or are thinking of adding to our portfolio.

"In the course of business, the analyst will ask some fairly sharp questions about various phases of the company's operations. For example, **one analyst recently asked the officer of one big Connecticut firm why it continued pouring money into a division that was a steady money-loser.**

"Apparently, the question was being asked by analysts from other groups having a position in the company's stock—mutual funds, investment companies, and insurance firms. **Before long that company got rid of that division.**"

Dr. Roger Murray, former vice-presi-




dent of Bankers Trust Co., and now a professor at the Columbia Business School, says: "Ask the right questions, and it's almost startling what an active part a major stockholder may be taking in shaping company policy."

## Collective Power

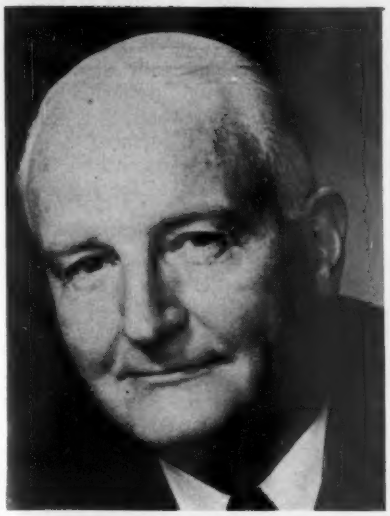
If the power of individual funds seems far from fearsome, when you lump them all together the question looms larger. It is fairly obvious that collectively pension funds, along with other financial institutions, are slowly but surely increasing their corporate stock holdings. At some point, this may mean their collective control of a number of corporations. **It's this increasing institutionalization of private property that is deeply disturbing to political scientists** such as Dr. Adolph A. Berle, Jr., former Assistant Secretary of State and now a Columbia law professor. This same subject comes up in a study that pension consultant Robert Tilove has done for the Fund for the Republic, which will be published soon.

What has happened is that high taxes have whittled down the rich investors of the 1920s who held sizable blocks of stock and controlled corporations. Their place has been taken by the financial institutions—mainly the mutual funds, insurance companies, pension funds.

While these have increased their holdings, the remaining ownership of corporations has been fractionalized among millions of new investors, most of whose holdings are minute. As a result, says Father Paul Harbrecht, pension fund authority and lawyer, some 60% of corporate ownership is cut off from effective control. This makes the voice of the financial institutions all the larger.

• **Climber**—And unmistakably, it's the pension funds that are the big new force behind this institutionalization of property. The NYSE figures on this score are striking. **Between 1949 and 1957 institutional holdings of stock jumped from $9.5-billion to $30.3-billion, a 218% gain. During that same period, pension fund holdings went from $500-million to $5.7-billion, a 1,040% gain.** Pension funds currently account for close to 20% of all stocks held by financial institutions.

As yet, there's no yardstick to meas-



**J. D. LOCKTON of GE warns that investing funds in risky or unproductive projects jeopardizes pensions.**

ure just how much of a problem this concentration of wealth in the hands of institutions really amounts to. But it's bound to magnify in the next few years. And most pension trustees are well aware that if the public ever gets the idea that pension funds do have an undesirable influence on corporations, government regulation would be in the cards.

**Already, there has been talk of creating a new non-voting stock for purchase by pension funds and other financial institutions.** In Europe, governments now regulate pension fund investments. In France, for example, pension funds must be 100% invested in governments.

## What Unions Want

U. S. companies haven't yet felt the government's hot breath down their necks regarding pension investments. But unions are already demanding a say-so in pension investment policy. The unions aren't interested in day-to-day investment operations. **What union leaders such as Walter Reuther and David McDonald want is to have a percentage of pension money invested in "social purpose" projects**—low-rent workers housing, medical clinics, hospitals, recreation areas in communities where the workers live.

This has already been tried by some union-industry funds. The Amalgamated Clothing Workers Fund put $15-million into the East River Housing Corp., a low-rent project in New York City, and the Mine Workers Fund lent $31-million to build hospitals for miners.

The union demand got a recent airing when Reuther complained that Ford pension funds had invested in a luxury housing development in New York City and had shunned middle-income housing in Detroit. The issue is expected to come up again at steel bargaining sessions this spring.

• **Risky**—So far, management has turned a deaf ear to such proposals, sees them as just one more way unions are trying to invade management's domain.

Most company officers go along with J. D. Lockton of GE, who feels that "investing welfare funds in risky, unproductive, or financially unattractive projects would place those funds, and employee benefits, in jeopardy."

## Top-Level Decisions

Handling investment problems is mainly a worry for fund trustees, and only broad policy decisions spill over onto top management desks. But company managements are running up against a host of other problems involving pensions—and their decisions may well mean that today's "typical" plan will be the "sport" in 10 years.

• **When to Retire**—There may be a shift, for example, in retirement age. A lot of questions are being raised now over whether retirement at 65 should be normal and often mandatory, whether the trend in recent years to lower retirement ages makes sense. Management is now discovering that many of its 65-year-old employees are still in top physical and mental shape, and is wondering if it should really push them off arbitrarily into retirement.

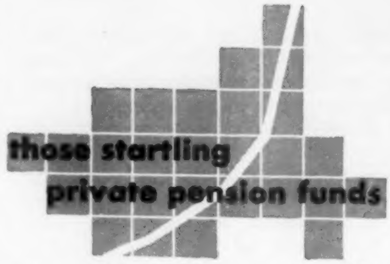
Shell Oil Co. has just made a step toward delaying retirement. Shell originally had compulsory retirement at 60, later extended the cut-off date to 65—but with the man who stayed till 65 getting exactly the same pension deal as one who left at 60. Now the company has tacked on a pension premium for those who work the extra five years, hopes it will induce more workers to stay on. Shell's top 200 or so executives, however, still have to quit at 60.

**The cost factor is also behind the reconsideration of retirement age. As the life span increases, the cost of providing pensions for workers beginning at age 65 goes well beyond the price tags originally calculated.** A poll of 162 company presidents revealed a great many were worried about "the prohibitive future cost" of current retirement policies. Over half suggested that retirement at 70, or even 75, would be more common in the future.

• **Living Costs and Pensions**—The long-time policy of basing pension benefits on average pay has also run into some serious snags. Here, inflation is the culprit. As a result, new benefit formulas are emerging. **Some plans now base benefits on final salary, or on average pay for the final 10 years, as a way of keeping pensions in line with living costs.** Others—among them, the Long Island Lighting Co., and several airlines in their contracts with the Air Line Pilots Assn.—have tackled the problem by offering variable annuities. The United Auto Workers and the Steelworkers have picked up this idea, and will be pushing for some sort of cost-of-living escalator on pensions.

**The unions are also determined to eliminate the practice of deducting Social Security payments from total pri-**

*"Some employees seem reluctant to retire at 65."*




vate pension payments wherever this practice still remains.

Perhaps the toughest issue management has to come to grips with, and one that will get top billing in the next few years, is the question of vesting.

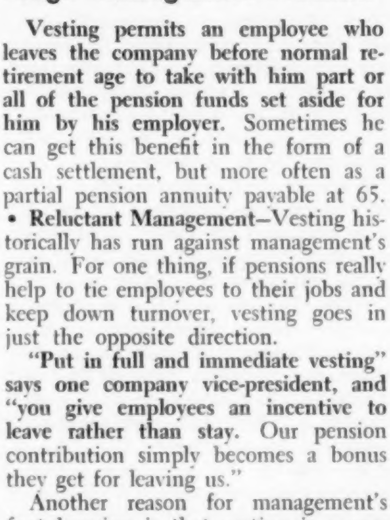
## Tough Management Problem

**Vesting permits an employee who leaves the company before normal retirement age to take with him part or all of the pension funds set aside for him by his employer.** Sometimes he can get this benefit in the form of a cash settlement, but more often as a partial pension annuity payable at 65.

• **Reluctant Management**—Vesting historically has run against management's grain. For one thing, if pensions really help to tie employees to their jobs and keep down turnover, vesting goes in just the opposite direction.

**"Put in full and immediate vesting" says one company vice-president, and "you give employees an incentive to leave rather than stay.** Our pension contribution simply becomes a bonus they get for leaving us."

Another reason for management's foot-dragging is that vesting is a very expensive proposition. Martin E. Segal, one of the country's top pension consultants, figures that **adding full and immediate vesting to a normal pension plan could hike costs as much as 40%.** The mathematics are complicated, but the reason is easy to see—if out of every 100 employees, 20 normally stay on to retirement age, total payments will obviously jump if everybody gets some sort of pension or cash payment.



**MARTIN E. SEGAL, pension consultant, says full and immediate vesting can hike costs as much as 40%.**

• **Voluble Labor**—On the other side, the unions argue volubly for full and immediate vesting—mainly on the ground that pensions are really deferred wages. One argument takes this line: Say the union settles with a company on a 10¢-an-hour package, 6¢ in immediate wage increases and 4¢ for pensions. **In a sense the union members are taking 4¢ of the package "as deferred wages"—and the worker has a claim against that 4¢.**

Another union argument is expressed by Lane Kirkland, research director of the International Union of Operating Engineers, who points out that in many industries, turnover is so great that it's unusual for one worker in 10 to stay with an employer long enough to collect a pension.

• **Supporting Views**—Some economists, such as Beardsley Ruml, go along on vesting. Ruml feels that lack of vesting tends to cripple labor mobility, contends that without vesting, pension funds can transform the American economy into a "new feudalism." Individuals will be locked into employment in companies where they have accumulated substantial pension rights, and companies will be "unable to employ desirable personnel over a certain age because of the impossibility of accumulating pension provisions."

Some in the management camp buy this argument. **Others see liberal vesting as a way of easing out executives who don't make the grade.** The president of a billion-dollar oil company which has adopted liberal vesting puts it in these terms: Take a 50-year-old vice-president who has been with the company 20 years but isn't pulling his weight in his new post. If the company fired him, the officer wouldn't get a dime's pension; few other companies would take him on because he represents too large a pension cost.

But with liberal vesting, the officer could retire right now on a tidy pension or could go into the job market and tell prospective employers that his retirement was already taken care of.

• **Middle Ground**—Today, vesting is catching on. In 1952, a Bankers Trust Co. survey turned up few plans in the mass-production industries with vesting; in 1956, 27% had it.

In going to vesting, management has taken the middle ground, limiting it mainly to older workers with sizable service. Only a handful of companies, such as the Columbia Broadcasting System, offer immediate vesting.

Most vesting schedules provide for


*"It's not too hard to envision a pension fund winding up with control of the company."*

gradual acquisition of a 100% status—say, 25% after five years' service, 50% after 10, 75% after 15, 100% after 20. American Sugar Refining Co., for example, provides vesting to employees with 15 years service at age 50.

## Problems for Everybody

But the problems the pension funds are churning up can't be confined inside corporation offices; they're spreading far and wide. **The economists are just scratching the surface on dozens of questions that need answering:** What impact will pension funds have on the supply of capital funds? How can they be used to support economic growth and make the maximum contribution to economic stability? What influence will they have on savings?

What the economists turn up may well upset many an earlier theory—for example, the long-held notion that pension funds would tend to discourage thrift and reduce the flow of money into savings accounts and life insurance. **Such economists as George Garvy of the New York Federal Reserve Bank feel that on balance the net effect of pension funds is to stimulate individuals to put more into savings.**

William Butler, a Chase Manhattan vice-president, has this explanation: "Without private pensions, the amount a person needed to save for retirement looked discouragingly large. Now that private pensions have made retirement a possibility, many people will save to make retirement a little more pleasant."

It's just this sort of question that the National Bureau of Economic Research and the Wharton School of Finance and Commerce are busily delving into.

• **Legislators**—The nation's legislators are faced with more immediate issues. The need for legislation in the pension area was made clear by the Senate Subcommittee on Pension and Welfare Funds (Douglas Committee), which turned up dozens of cases of looting and mismanagement of pension funds—mostly of the union-industry type. To prevent such situations in the future, the committee recommended overhauling outmoded state and federal laws and adding new ones.

To support government regulation, the subcommittee argued that in many cases pension beneficiaries had no one else to turn to, that the government itself had a big stake because of the funds' tax exemption.

Congress' first effort to put a bridle on pension funds was the passage last session of the Disclosure Bill, requiring all pension funds to file annual reports of operations with the Secretary of Labor, who then makes them available for public inspection. The law, however, sets up no operating rules or actual standards for funds.

**Indications from last year's legislative go-round are that Congress feels** the federal government should provide only mild remedies, that **it's up to the states to furnish the real safeguards.** But so far, the states have made only minor passes at assuming this responsibility. Several—such as New York and Washington—have disclosure and regulation bills, but applying mainly to union-employer funds, not unilateral plans.

When regulation does come, the first target will likely be to prevent milking of funds through exorbitant salaries and self-dealing. Another area that legislators are poking around in is the setting of some sort of investment and actuarial standards, as well as encouragement of efficient management. To Murray Isaacs, head of the New York State welfare fund bureau, more efficiency is a key point; lack of knowhow, he says, is "probably more responsible for waste

## those startling private pension funds

of funds than deliberate dishonesty."

• **Courts**—Whatever laws are passed, the courts will have their hands full. The courts will have the job of evolving a coherent body of law to reconcile traditional property rights with this new form of property that has suddenly emerged, involving billions of dollars and millions of workers. Here are some legal riddles for the courts:

• **What rights does a worker have in a company pension plan?** So far, the courts generally have taken the position that a worker has no rights until the time he becomes eligible for a pension.

• **What rights do workers have to pension funds in case of termination of the plan or liquidation of the company?** Up to now, when a company that's liquidating hasn't set up a separate pension fund, the courts have given workers very little standing as creditors. Where there's a separate pension fund, employees' claims have usually been limited to money in the fund. This is usually doled out first to those already receiving pensions; any that's left over goes to those about to retire, with younger workers usually left out in the cold. Yet, if the fund represents an accumulation of deferred wages, why are younger workers excluded?

This kind of problem also becomes important in a plan that proves out to be inadequately funded on a long-term basis. Under such plans, a worker is never sure just what his benefit will be. Anthracite coal producers, for example, have contracted to pay 50¢ per ton royalty into the UMW pension and welfare plan. The calculation was that workers would get $100-a-month pensions at age 60. Yet the sharp decline in tonnage in the industry brought pensions down to $50 in 1954, and as low as $30 recently.

• **Can employees force companies to pay pensions they have promised in writing to pay?** Most companies write escape hatches into pension plans to provide an out if they run into financial straits. But the question has been raised whether it's fair for employers to retain these escape hatches and at the same time give employees a false sense of security about pensions.

The New York Insurance Dept. found that of 188 pension plans studied, only 84 had ever made it clear to employees that pension benefits were not guaranteed, and 70 even implied con-

trary to fact that benefits were guaranteed or promised without reservation.

• **Accountants**—The accountants, too, still have a lot of things to iron out, mostly concerning the complicated handling of past service costs. Current and past service contributions are usually lumped together on the annual income statement, but **few companies list their total past service obligations in any place where it's easy for the public to see.**

This may seem just a technical fly speck. But **the liability represents a huge lien on future earnings that can be important to stockholders, or to investors** making a security appraisal.

"In practical terms," explains one accountant, "the difference between a company that has paid off $400-million in past service costs and a similar-sized company that hasn't made a dent on paying them off is considerable. It makes a difference in past earnings, and will make a difference in future earnings."

But so far, few companies show this past service liability figure in their annual reports, and the American Institute of Certified Public Accountants has not yet made a specific recommendation.

## Where They're Heading

These problems, and many others, will have to be thrashed out in the next few years—and the results will shape future pension development.

While much of the pattern is still confused, some trends seem to be clear. One is that **pension plans are bound to cost more.** The trend is decidedly to hike benefits, provide such things as vesting, special widow's benefits. And **the concept of a "portable pension"—with liberalized vesting that permits workers to carry their private pension rights from one employer to another—will spread.**

Some new Teamster contracts are **trying a further experiment.** These permit a Teamster to move from one industry to another and still continue to build up his pension rights. A Teamster with 10 years of pension credits with a New York trucking firm might move to New Jersey, take a job with a warehousing company, and get pension benefits equal to the sum of those due from the two employers. This idea has already become a political issue; it was introduced in the 1958 New York governor's race by Nelson Rockefeller.

**It's also obvious that management's freedom of action will be further curtailed—by unions, by legislatures, by the courts.** Companies will have to spell out pension rights much more carefully, and can look for a series of curbs on fund financing and investment policies.

**In terms of growth, unless the economy goes into a tail spin, pensions will keep on skyrocketing.** Just how fast depends on employment trends, the level of prosperity, labor's bargaining strength, and the priority unions give to pensions over other demands.

*"The trend is decidedly to hike benefits."*

Some of the growth will come from expansion of mass-production industries, already well-blanketed by plans. A good slice will come in such industries as textiles, tobacco, furniture, where unions so far have been putting wage boosts ahead of pensions. And a good deal of the gain will come from small businesses, which are just beginning to see the tax angles in pension plans along with the employee benefits.

• **Challenge**—The tough task of shaping the growing giant presents a critical challenge to U.S. businessmen, as well as to workers, unions, legislators, and courts. G. Warfield Hobbs, vice-president of the First National City Bank of New York, puts the challenge in these terms: "I feel although some of these contracts have been in existence 25 or 30 years, that by and large the whole field is new. . . . It has hit us like a tidal wave. . . . It's going to be one of the greatest influences in our economic and social future. . . . It is one of the largest financial problems facing anybody. . . ."

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# INTERNATIONAL OUTLOOK

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JAN. 31, 1959

A BUSINESS WEEK SERVICE

**Nikita Khrushchev bore down this week on the economic contest between East and West.** This was the main theme of the address he gave in Moscow to the 21st Congress of the Communist Party. And the Soviet Premier predicted the coming victory of Communism with complete confidence.

**Khrushchev's confidence is based both on the missile strength that Russia already possesses and on the economic strength** he expects it to achieve from the new Seven-Year Plan. But what Khrushchev stressed was Russia's ability to win the cold war by surpassing the U. S. economically.

**In defining the cold war primarily in economic terms, Khrushchev gave no hint of political concessions that would ease East-West tensions.** For example, there was no sign in his speech of any give on Berlin or on German unity. He stood pat on his earlier demands for a Western withdrawal from West Berlin. Also, he insisted that negotiations on German unification must be conducted between the two Germanys.

**Even so, Washington doubts that Khrushchev intends to build the Berlin issue into a military crisis.** Some U. S. officials think that Deputy Premier Mikoyan, on his return from the U. S., warned his boss against such a course.

**The West will test Khrushchev's Berlin policy soon by making a bid for a Big Four foreign ministers' conference on Germany.** Secy. of State Dulles said this week he would welcome such a conference—if the agenda were broad enough to cover all German problems, not just Berlin. Dulles even threw out some bait to Moscow by agreeing to discuss a Soviet-backed Polish plan for demilitarizing a large zone in Central Europe.

However, **Dulles still is skeptical** about the interest Khrushchev expresses in promoting a thaw in the cold war. Dulles still hasn't seen any evidence that Moscow is ready to contribute to such a thaw.

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**Western oil companies that operate in the Middle East soon may face a general demand from the Arabs for a bigger share in profits.** Venezuela's successful shift to a new profit split has helped whet the appetites of the oil-producing countries in the Middle East.

**This issue could come to a head at an Arab League oil conference this spring.** All the Arab League countries, whether they produce oil or not, plan to send delegations. (The oil companies are planning technical exhibits.)

**Saudi Arabia already is trying to line up the other oil producers** in a common front against the foreign companies. Saudi oil officials recently have been talking up the idea of joint bargaining in Iraq and Kuwait. However, Pres. Nasser of the United Arab Republic will want to get in on the act. And this could lead Iraq, now on the outs with Nasser, to block any joint move by the Arab oil countries.

**The oil companies, for their part, are looking for ways to improve their position in the Middle East.** At some stage, they may consider contributing financially—via the new Arab Development Bank—to a regional economic development plan.

BUSINESS WEEK
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**Hopes are fading in Paris for an early end to the Algerian war.**

**Severe fighting has again flared throughout Algeria.** The French Army is asking for postponement of government plans to reduce the French military effort. Rebel forces have just blown up an oil train from a Sahara field, thus trying to scare off foreign interest in the area. The attack on the oil train, the first of its kind in over a year, came right after Standard Oil Co. (N. J.) announced that it was joining the search for Sahara oil.

**If the Algerian fighting continues many more months, France could be in economic trouble again.** The savings in de Gaulle's austerity budget would be wiped out. Then France would have to call on its partners in the European Common Market, especially West Germany, for new stabilization credits.

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**A real antitrust policy is emerging in Britain.**

**This week the Restrictive Trade Practices Court ruled against a well-established price-fixing agreement** among spinners of cotton yarn. The judgment, the court's first in a price-fixing case, seems to have sealed the fate of hundreds of British price rings and cartels. **The result will be more competition, and more company mergers, in British industry.**

**The hearings in this case lasted 28 days, with the Lancashire Yarn Spinners Assn. using everything in the book** to defend "stabilization" schemes. Politically, the association's strongest argument was that removal of the price scheme would force many textile mills to close, thus creating heavy local unemployment. But the court ruled that the agreement had to end, regardless of such hardships.

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**Mexico and Guatemala have got into a nasty row.** As a result, the Mexican government has broken off diplomatic relations (page 134).

**On the surface, it looks as if the trouble blew up simply because of a local fishing dispute.** (The Guatemalan air force attacked some Mexican fishing boats in border waters.) **But observers in Mexico City say there's more** to this affair than just fish. They point to factors like these:

• Pres. Ydigoras of Guatemala needed a jingoistic issue to strengthen his shaky political position at home. So he was looking for an occasion to take a crack at Mexico.

• Mexico and Guatemala both have a yen to take over Belize (British Honduras). Ydigoras claims that this British colony rightly belongs to Guatemala, and he apparently thinks there are rich oil deposits there. Mexico makes the same claim.

• There have been rumors in Guatemala that Mexican interests have been supplying guns to the Guatemalan opponents of Ydigoras.

**If this Latin American rift should widen, businessmen would feel the effects throughout Central America.** The Pan-American Highway, now nearing completion, would be stalled (materials for the highway reach Central America via Mexico). **This could delay plans for the new Central American Common Market,** which has been planning to use the Pan-American Highway for trade with Mexico and the U. S.

**American companies operating in Mexico also could be hurt.** Some of these companies sell to Central America through their Mexican branches. Guatemala already has banned all imports of Mexican goods.

A REPORT TO MANAGEMENT ON HOW

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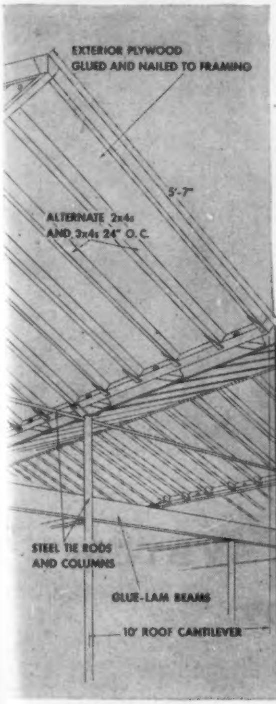


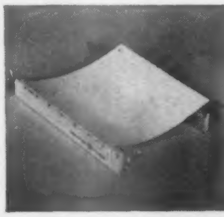

Paper models demonstrate remarkable strength of design. Flat sheet sags under own weight; folds provide stiffness by acting as series of rigid "V" beams.

**Strength from shape**—not mass—is the key to this precisely engineered fir plywood folded plate roof. The plywood plates are stiffened with light lumber framing and act in pairs to form a series of giant "V" beams.

Stronger, yet less expensive (by 20 per cent or more) than conventional joist or truss construction, fir plywood folded plate roofs are ideal for warehouses, stores or other buildings that require large, clear floor areas. Depending on design, the system permits clear spans of 50 feet or more.

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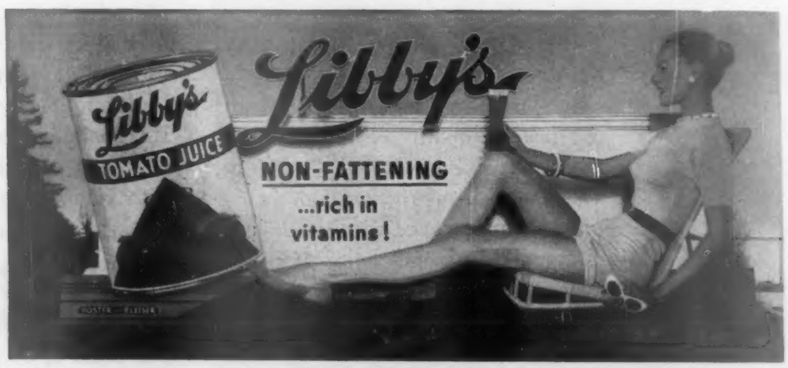


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# In Labor

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## Overtime Clause in Sears Contract May Set Pattern for Other Retailers

Unionized department stores are studying the possible implications of a new overtime clause in a contract signed by Sears, Roebuck & Co. and the Retail, Wholesale & Department Store Union in San Francisco. In time, it could become a national demand—and potentially a costly one.

There's a trend in retailing toward night openings. **Up to now, the common practice has been for union contracts to require overtime premium pay on a "40 and 8" basis—that is, time-and-a-half after 40 hours a week or 8 hours in any one day.** This allowed stores to call in employees needed for night work on a noon to 9 p.m. schedule, to avoid overtime on the 8-hour day basis.

**The new Sears, Roebuck-RWDSU agreement requires time-and-half pay for any work after 6:30 p.m., regardless of the number of hours worked in the day or week.** The union says it's "reasonable to expect" the demand will spread out to other cities.

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## Wage Agreements With Oil Workers Reduce Chances of New Demands in June

Major oil companies could face new wage bargaining problems in mid-June—but it's hardly likely they will.

Sinclair Refining Co. and other producers that have contracts with the Oil, Chemical & Atomic Workers have signed new pay agreements giving employees 5% raises (about 13¢ to 16¢ an hour) as of Jan. 18.

Under the new agreements, **OCAW can submit new pay demands this June.** Technically, it can strike if the demands are refused. But union leaders say privately that there is little likelihood that the subject of wage increases will be brought up again so soon.

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## U. S. Unions Get International Pledge In Drive on "Flags of Convenience"

The fight to unionize ships sailing under so-called "flags of convenience" took on new life this week. Heads of the two major U.S. sailors' unions, Joseph Curran and Paul Hall, returned from a London meeting with a pledge of worldwide cooperation for a drive to organize American-owned foreign flag vessels (BW—Nov. 8'58,p92). And American operators prepared for what they termed the "showdown" phase of a seven-seas engagement.

The International Transport Workers Federation agreed, at Curran-Hall instigation, **to unionize ships according to the nationality of the owner rather than, as in the past, that of the crew.** Although present ITF contracts will continue in effect regardless of the nationality of the owner, these will be renewed on expiration only if the owner gives pay and conditions "generally in line" with those of his country.

MORE NEWS ABOUT LABOR ON:

- P. 113—Craft unions rally for showdown.
- P. 116—SUB under test in recession.
- P. 118—Harassing tactics an issue.

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## Consumer Price Index Drops to 123.7%; "Escalator" Pay Remains the Same

The Labor Dept.'s monthly Consumer Price Index dropped in mid-December from its record high of 123.9% to 123.7% of 1947-49 living costs. **The 700,000 workers covered by "escalator" contracts with a December revision date will not get a cost-of-living increase; the index, at 123.7%, is at the same level that it was three months before.**

Key mid-December figures:

| | | |
|---|---|---|
| Food ...... | 118.7%, | down from 119.4% |
| Clothing .. | 107.5%, | down from 107.7% |
| Housing ... | 128.2%, | up from 128.0% |

No significant change is expected for January.

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## Strike Fails to Stop Trains

Three of its four track maintenance men and the 14-mile Rahway Valley Ry. are involved in what may be the country's smallest strike. Members of an independent union struck last week for a 60¢ increase over a $1.43 hourly rate.

The company's remaining 13 employees stayed on the job, hauling freight cars between mainline railroad and industrial plants in northern New Jersey. The company said that it can "keep going two years."

# Craft Unions Rally for Showdown

**● The feud between craft and industrial groups for construction jobs in industrial plants is building up steam.**

**● The Building & Construction Trades Dept. and Metal Trades Dept. protest that they are losing ground to the Industrial Union Dept., despite guarantees that they wouldn't.**

**● AFL-CIO dispute-settling machinery is beginning to clear up job rows, but the crafts want more protection.**

Feuding craft and industrial unions in the AFL-CIO are headed toward a showdown in 1959. It could be a serious one for the federation, an explosive issue for the united labor movement's biennial convention next fall. The next few months will be critical. They will determine whether there will be peace —or war—in AFL-CIO.

The craft group—the dominant force in the pre-merger AFL—has never been satisfied with the unity agreement that established AFL-CIO three years ago. Its 29 unions with 4.7-million members feel, with some grounds for doing so, that they have lost power, prestige, and some autonomy. Most of all, they feel vulnerable.

• **Councils Meet**—This week, executive councils of the two large craft groups in AFL-CIO held separate meetings in Miami Beach. Both the Building & Construction Trades Dept. and the Metal Trades Dept. showed a deep and angry concern with the way they are faring in AFL-CIO in a running rivalry with the Industrial Union Dept. headed by Walter Reuther. They protested that they are losing jobs to IUD unions, despite AFL-CIO assurances that they would not.

Such a situation can't go on much longer without "real trouble" developing, craft union leaders made clear. They laid plans for an aggressive fight to preserve craft jobs. At the same time, they expressed a hope that the conflict with IUD may be avoided.

For the first time, jurisdictional machinery set up by AFL-CIO for settling craft vs. industrial union job rows is showing isolated but hopeful signs of success. And, the United Auto Workers and the Detroit Building Trades Council last week signed a job agreement that could considerably reduce jurisdictional conflict in the big auto plants—one of the biggest fields for strife between craft and industrial unionism.

If the dispute-settling machinery in AFL-CIO begins to function smoothly —and to everybody's satisfaction—the federation's worried leaders will be able to breathe easier than they have since late 1955; the merger will have weathered a stormy test.

Otherwise? One construction union strategist put it this way: "This is the final fling. If this doesn't work, then we'll make some changes."

• **Split Threat?**—Is that an implied threat of a breakaway from AFL-CIO? Some craft union leaders have warned that construction and metal trades unions might secede if a satisfactory settlement isn't made this year.

Few outside the craft group take them seriously—now. The threats are interpreted as a bargaining device. The crafts are maneuvering for maximum strength and solidarity. They don't want a break with AFL-CIO—just the most advantageous jurisdictional agreement that can be worked out, not at some indefinite time but by September.

## I. The National Situation

The contest between the craft and industrial unions is over which group gets construction jobs in industrial plants. How to resolve it is so complex that top labor negotiators haven't yet devised a really successful jurisdictional plan, not just in the last three years of merger but in more than 20 years of feuding before that.

Just one year ago, also in Miami Beach, the rival union leaders did agree on some territorial guides. At the time, these were hailed as the way to lead out of the trouble. The jurisdictional rules for industrial plants provide:

• All new construction shall be done by the building tradesmen.

• All production repairs and running maintenance of buildings and equipment is in the jurisdiction of industrial unions.

• All in a "gray area" between the other two—a remodeling job, for instance—would be settled on a basis of past practices.

• **Dispute Machinery**—The plan sets up dispute machinery. Two-man teams, one from each union, investigate complaints and report to craft and industrial department officials. If they can't negotiate a settlement, the dispute goes to a committee of the AFL-CIO executive council.

The settlement procedures bog down if the council committee doesn't agree or if its recommendations are not followed. Reuther's group wants to arbitrate the decisions, if necessary; Peter Schoemann of the Plumbers and other building trades leaders are holding out against arbitration at any point.

One building trades official, outspokenly skeptical of the system until recently, this week reported that his department has processed 109 complaints, and that "more than half" have been settled. Eight have reached AFL-CIO with no action as yet.

"It's not too bad a picture when you take an over-all look at it," he says.

The United Steelworkers, more in conflict with the construction unions than any other industrial union, hasn't accepted the pact, so 28 complaints involving USW haven't been touched.

The mild optimism about the working arrangement is shared by Richard Leonard, IUD representative assigned to work out settlements after the reports are in. He says, "Progress is being made . . . though there's much to be done."

• **For Example**—Among the disputes are two that illustrate the troubles that can arise:

• St. Joseph Lead Co. of St. Louis wanted a mill site constructed 60 miles from its established plant. It included sinking a mine shaft as part of a \$16-million project. Although the project involved new construction, 150 members of the Oil, Chemical & Atomic Workers at the main plant fought the building trades for the jobs.

• In Toledo, a construction company negotiated maintenance contracts with Pure Oil and Standard Oil companies. Some 400 oil workers at the plant, facing layoffs, challenged the assignment of construction unions to the project.

Although they have accepted the dispute-settling machinery, at least tentatively, some construction union leaders are wary of the jobs formula and its administration. Designating new construction as their only sure territory, they say, cuts into their other traditional areas of craft employment. The Iron Workers, for instance, have always installed ornamental figures made in shops with Iron Workers contracts. Under AFL-CIO rules, they can't; the installation work does not come under new construction.

Although the national jurisdictional

plan was set up to clear up local job feuds as quickly as possible, delays—possibly longer than the disputed jobs last—are unavoidable if the feuding isn't settled at the first, two-man team stage.

## II. The Detroit Pact

Because of this, the surprise peace pact developed by the United Auto Workers and the Detroit Building Trades Council is receiving a lot of attention inside AFL-CIO. Patterned after the national agreement for settling jurisdictional troubles quickly and peacefully, it's believed to be the first formal plan on a local basis.

• **Terms**—Reuther indicated the importance he considers the Detroit plan to have by signing the agreement personally. Because he heads the IUD, Reuther is considered by most craft unionists as a dangerous enemy, spearheading the industrial union encroachment on craft jobs.

The local agreement, as the national one, assigns new construction to the building trades and repairs and maintenance to the production workers. It calls for a six-man committee, three from UAW and three from the council, to investigate and work out settlements in job disputes in "doubtful areas," such as the rearrangement of equipment and machinery, or remodeling of a plant previously in production.

• **Not Perfect**—Nobody expects the plan to perform a miracle and settle all disputes. But, both UAW and crafts negotiators agreed that it should minimize conflicts. Although there has been no formal meeting of minds before, the two groups have got together off and on for 10 years to work on the problem of defining jobs and jurisdictions.

AFL-CIO is expected to recommend that crafts and industrial unions set up similar machinery in other cities. A UAW spokesman commented that the pact "certainly can and might encourage other agreements." It is attracting considerable attention on the outside, he added: "Building trades people outside Detroit seem to like it, and we haven't heard any criticism."

Nevertheless, criticism was expressed in the Miami Beach crafts meetings this week. A number of executive council members of the Building & Construction Trades Dept. complained that the Detroit group "apparently has been hornswoggled" by Reuther—they may have given away too much by making "doubtful area" jobs subject to committee negotiations.

Their position, widely held in the building and metal trades, is against any job concessions until the crafts can confront Reuther and IUD in full strength—to get the best split possible on craft jobs in industrial plants. END

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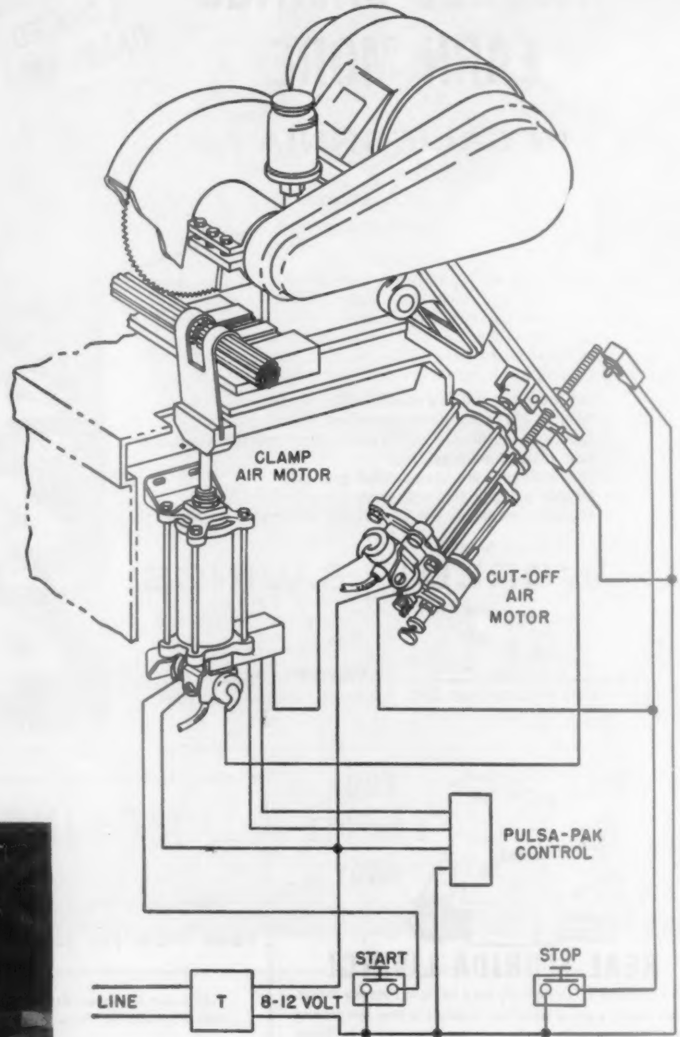


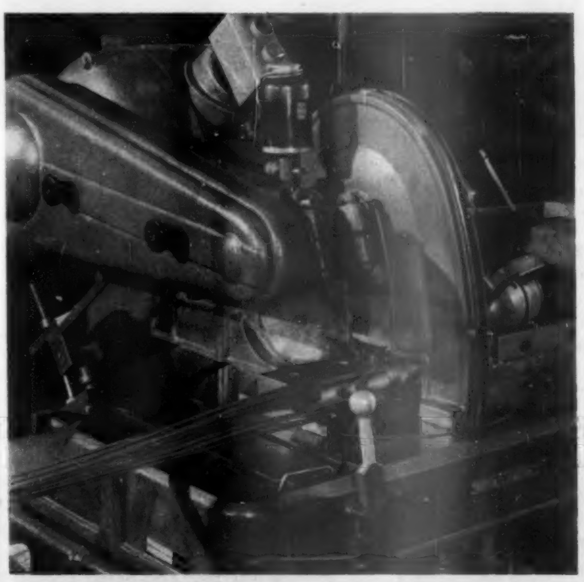

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# Labor Reform . . .

**. . . measures proposed by the President follow last year's program. One change involves NLRB membership.**

Pres. Eisenhower's 20-point labor legislation program that went to Congress on Wednesday contained 10 reform proposals and 10 Taft-Hartley changes—combined in an anti-racketeer-in measure he describes as "complete and effective."

The President reiterated his dissatisfaction with the reform bill offered by Democratic Sen. John F. Kennedy; he criticized Kennedy's proposal as "piecemeal" because it doesn't contain T-H bans on secondary boycotts and "blackmail" picketing—prohibitions the Administration considers vital in any reform bill. Otherwise, many points in the White House package match the Democratic reform bill (BW—Jan. 24'59,p84).

AFL-CIO formally backed the Kennedy proposals this week, but asked for an amendment that would deal with "corruption by employers"—arguing that the Kennedy plan would exempt employers from expenditures for "labor espionage."

• **One Change**—The White House measure contained no surprises, and only one major change from the Eisenhower 1958 labor reform program. This would make the five-member National Labor Relations Board legally bipartisan by limiting one political party to three seats on the board.

The key anti-corruption points would require:

- Union reports on finances and conflict-of-interest deals—with criminal penalties for destruction of union records, bribery by employers, and so on.
- Secret ballot elections of union officers and guarantees of rank-and-file control of unions.

On Taft-Hartley, the bill would:

- Ban picketing to force recognition by an employer whose workers had already rejected the union.
- Ban union pressure against a neutral employer to aid in a labor dispute.
- Rescind the provisions that forbid strikers to vote in a new representation election at the plant where they have been employed.
- Allow NLRB to cede some of the smaller labor cases to the states for action.
- Require employers to join union officers in signing the non-communist oath.


Photograph, from an advertisement in FACTORY, courtesy Clark Equipment Company.

# Harassing Issue

## Is it good faith if a union uses harassing tactics while bargaining? The U.S. Supreme Court will decide.

The U.S. Supreme Court this week agreed to decide whether a union may use harassing tactics—short of an actual strike—to pressure an employer into agreeing to terms sought by the union during collective bargaining.

The National Labor Relations Board carried an appeal to the Supreme Court after a lower court refused to uphold NLRB's position that harassing tactics violate a union's duty to bargain in good faith under the Taft-Hartley Act.

At issue is the good faith of the Insurance Agents' International Union in bargaining with Prudential Insurance Co. of America. After about two months of unsuccessful bargaining on a new contract, the union—though continuing to bargain with the company—directed its members to refuse to write new business, work scheduled hours, or make out reports.

• **Argument**—NLRB ruled that in using these tactics as a means of bringing pressure on the employer to yield to its demand, the union was not bargaining with Prudential in good faith.

A lower court agreed that the agents could be fired for their conduct, but refused to enforce the board's order to stop the harassing tactics. The court reasoned that since a union can stop work entirely—by calling a strike—to put economic pressure on an employer without violating the good faith bargaining requirement, it is not guilty of bad faith in using partial means to achieve the same ends.

The NLRB wants the Supreme Court to disavow this reasoning. It argues that many other unions will adopt the same crippling tactics if the lower court is upheld. According to NLRB, the ruling now allows a union to compel an employer either to fire his employees and perhaps close his business, or to bargain with the union while his employees collect their wages but choose for themselves what duties they will perform.

• **Teamsters Lose**—In another action, the Supreme Court refused to interfere in a dispute between a Philadelphia Teamsters local and the McClellan rackets investigating committee. The local asked the Supreme Court for help after lower courts refused to stop the McClellan committee from giving the district attorney of Philadelphia County access to union documents subpoenaed for its labor-management rackets investigations. END


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# In the Markets

## Sag in Stock Market Follows Pattern Of Dips and Rises Expected for '59

After failing to gather enough strength for a new rise, the stock market this week broke sharply.

It is unlikely that the drop will be severe. Most analysts say that a 10% decline is the most they expect, and the feeling is that a much smaller break is more probable. If the market did drop a full 10%, it would put the popular Dow-Jones industrial average at around 540, which is now considered a buying "floor." As one broker put it this week: "I'll buy for my own account if the Dow-Jones drops to 560, and will keep on buying if it goes below that."

**The probability still remains that the market will be subject to a number of drops and rises this year in the 560-600 range** (BW–Jan.17'59,p85). Individual stocks will, of course, be subject to much greater swings. But with stock market prices as a whole anticipating a new wave of prosperity and inflation, both institutional and individual investors want to see some confirmation of improved business rather than merely the promise.

This is apparent from the fact that many fourth-quarter reports, now coming out, show definite increases in both sales and profits. But these hikes have been taken for granted, and **investors are now favoring only those issues that can provide definite prospects for continued improvement in the months ahead.**

Thus, this year's market will not follow the pattern of the 1958 market, which went up sharply on anticipations of better business. Now that the market is high, it is vulnerable to declines whenever there is any sign of trouble, although the basic trend is still up.

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## Borne Chemical Stock Starts Slipping After a Baffling Speculative Flight

The sudden rise and fall of Borne Chemical Co. shares on the American Stock Exchange kept Wall Street in a dither this week. While onlookers gaped, both the ASE and the Securities & Exchange Commission scurried around for an explanation.

Borne, a New Jersey maker of oils and greases, shot up from $7.50 per share in mid-1958 to $31 in the week ending Jan. 16. In the following week, 37,100 shares were traded (volume in 1959 was only 46,900), and the stock climbed to $63, then $80. This week **it started falling back under waves of selling pressure,** when the company reported a net loss of $13,000 on sales of $1.8-million. It also had a deficit in 1957.

Trading in Borne was stopped three times, and a new crew of specialists was called in to handle the company's floor trading. By Wednesday, the stock was down to $32.

**The main reason advanced for Borne's behavior is its acquisition last December of Plastomatic Corp.,** which has a new process for hermetic sealing with plastics. But there has also been a spate of rumors—such as talk that du Pont was taking it over and that it was going into solid fuels—to prompt speculative action. With only 189,000 shares outstanding, speculative demand sent the stock soaring. Now that most of the rumors have been punctured, the stock is falling.

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## SEC Asks Broader Authority To Curb Stock Manipulators

The Securities & Exchange Commission this week asked Congress to authorize a list of 92 recommendations that would clamp down on stock manipulators and tighten the securities laws for the protection of investors.

Most of the proposals have been recommended previously. But several are new, stemming from Congressional investigations of the operations of Bernard Goldfine and the Crowell-Collier Publishing Co.

**The Commission, for example, asks that laxity such as Goldfine displayed in filing SEC financial statements be punished by $100-a-day fines on the tardy companies and individuals.**

Concern over Crowell-Collier's sale of $4-million in debentures in 1955-56 prompted the Commission to call for clear-cut authority to deal with certain security sales now outside its jurisdiction, including private and intrastate sales. In addition, SEC asks that the amount of offerings that can be exempted from its regulations be raised to $500,000 from $300,000.

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## The Markets Briefs

**Speculative interest in gold** has led the Toronto Stock Exchange to initiate trading in gold bullion. Impetus for the move was the success of the Canadian brokerage house of Doherty, Roadhouse in selling gold bars on margin (BW–Dec.6'58,p111). If U.S. citizens wish to purchase gold—by law, they're not permitted to hold it in this country—storage and insurance rates will start at one-quarter of 1% per year for amounts up to $100,000 and will be graded down for larger amounts.

**The parade of stock splits** continues, as companies take advantage of the high level of the stock market to broaden markets for their shares. Latest proposed splits: Denver & Rio Grande (3-for-1), Allied Kid (2-for-1), Stauffer Chemical (2-for-1), and Eastern Stainless Steel (2-for-1). Both R. J. Reynolds and Warner Lambert, which have broken off a proposed merger, also plan 2-for-1 splits.

With Hawaii slated for statehood, there's been increased trading in local stocks on the **Honolulu Stock Exchange.** For 1958, dollar volume was $9-million, an increase of $2.1-million over 1957, and most Honolulu brokers feel that they will do increased business this year. Hottest favorites are companies with large land holdings, reflecting speculative interest in real estate.

## MONEY & CREDIT

# Less "Float"

### Fed plans to return to three-day collection schedule to cut down credit extended for unprocessed checks.

In a move designed to bring about a more orderly money market, the Federal Reserve Board's money managers are making a technical change affecting the reserves of the banking system. Although the Fed has assured the commercial banks that the move will not make money tighter, many banks are uneasy about it.

The change involves "float"—which is credit extended by the Fed to its member banks for checks in process of collection. Over the past few years, float has been one of the knottiest problems facing the Fed, because the reserve banks have been giving member banks credit for deposits faster than it is physically possible to transport and process checks. As a result, float has been rising, and is subject to big day-to-day swings.

• **Current Practice**—At present, the Fed—which acts as the intercity collection agent for member banks—has a maximum two-day collection schedule for checks. After that time, the member banks automatically get credit for checks deposited with the Fed for collection from other banks. According to some officials, this schedule is "unrealistic" because it gives the banks credit for a lot of unprocessed checks in figuring their reserve requirements. In December, for example, float was in the neighborhood of $2-billion, or about one-eighth of required reserves.

• **New Plan**—Now the Fed is planning to return to the three-day collection schedule it once had. This will mean that the banks will have less float to be counted as reserves. If the Fed did not offset the drop in float, by extending other forms of credit to the banking system, the move would actually mean a definite shrinking of the reserve base, and that would mean tighter credit.

But Fed officials say they plan to counteract any change in the collection schedule—presumably by open market purchases of government securities which would create additional Federal Reserve credit. They do not deny that there is opposition to the move, particularly by big banks that do a lot of business with correspondent banks across the country. Nevertheless, they are determined to restrict the amount of float outstanding.

Many of the 12 regional Fed banks already have taken steps to cut down float. But such measures have only affected banks in the same district. The new move will be system-wide, although its heaviest impact will be on the larger banks.

Up until 1951, the Fed had a three-day schedule. Its long-term pattern has been to reduce collection schedules on the theory that as nationwide transportation speeds up, the time allowed for collections should drop. Although this has been the case, the amount of checks has increased and processing has not been able to keep pace.

The money managers feel the change will be helpful in carrying out credit policy. As they see it, it will reduce erratic changes and help them to get a better "fix" on float. This means they will have to take less action to counteract any unpredicted changes.

• **Lack of Enthusiasm**—But the banks still think that changing the float schedule means cutting down on credit. In New York, for instance, some bankers say that they can live with the move, but others insist it is unfair.

The Fed has not yet decided just when it will change its schedule. But officials say they are determined to make the move as soon as possible.

# G. Russell Clark Gets New York Banking Post

One of the most important supervisory banking posts in the nation was filled this week when G. Russell Clark, executive manager of the American Bankers Assn., was named as New York State Superintendent of Banks.

Clark's appointment was a fairly well-kept secret by the new Rockefeller administration. Many candidates had been discussed in the banking community, and Clark was somewhat of a dark horse. But he has long been involved in banking affairs, and it is expected that he will bring to the job a professional flair that some critics say has been lacking in recent years.

His first order of business will be to decide whether to approve the new rash of mergers in New York (page 142). But beyond that, he will have to deal with a wide range of problems involving the state's banking system. And as New York is a pivotal state in banking, his actions will be closely watched.

• **Current Issues**—One major problem is the question of branch banking, which is now confined by district boundaries. Moreover, the state's savings banks are also pressing for branches, which commercial banks oppose. Another issue involves bank holding companies. These are anxious to expand, but are looked upon by some bankers as monopolies, smothering competition. END

# PERSONAL BUSINESS

BUSINESS WEEK
JAN. 31, 1959

A BUSINESS WEEK SERVICE

**Is your will outdated? Or for that matter, do you have a will, in good legal form?** The importance of wills gets a lot of publicity, yet many people, including a surprising number of businessmen, tend to ignore the idea.

Part of the reason, of course, is that few people like to face up to the idea of dying. Another big reason, however, comes under the heading of skepticism: **Many people can't see why, in a reasonably simple financial and family situation, the lack of a will may have dire results.**

A few legal fundamentals show why:

**If you leave a will, you can name your own executor.** But if you die intestate—without a will—**the court appoints an administrator.** True, his job is essentially the same as an executor's, and it is regulated by state laws that provide for the distribution of your property among close relatives. **But there can easily be a hitch.**

For example, several people may have an equal right to be appointed administrator. **And if each person asserts his right, the estate can be thrown into litigation, delay, and expense**—even before an administrator is appointed.

**On top of this, the court may name someone who might be not only far from your first choice but might even be antagonistic to some of your closest beneficiaries.** One example: A second wife may be unfriendly to children by a first wife—her administration could be damaging to them.

**With a will, you usually can excuse your executor from giving bond,** whereas a court-appointed administrator is almost universally required to be bonded. **And the cost of such a bond (paid by your estate) may—even in a modest sized estate—far exceed the cost of preparing a will.**

Remember, too, that the court-appointed administrator is limited closely by state laws that regulate estate administration. **With a will, you can give an executor broader powers, discretion, and authority than an appointee can exercise.**

**If children are involved, there's another strong argument for a will—one that may be more vital than any property consideration.**

With a will, you can name a guardian for your under-age children, instead of relying on a court appointment. **If you wish, you can even name two persons—a trustee to handle the child's finances and a guardian to provide for the child's personal care.**

Here again, a court-appointed guardian would have to follow the letter of the law as to financial management of the child's property, and this could work to the beneficiary's disadvantage. (Bonding might also be necessary, thereby adding to the expense.)

**A point on formal execution of a will:** Your will can be relatively simple—but the popular idea that a will scrawled on the back of an old envelope is safe is generally untrue.

**It's true that some states may recognize a holographic will (in your own handwriting, without witnesses).** But recognition doesn't mean there won't be serious complications—the obvious solution is to have your will precisely drawn and legally executed in your attorney's office.

**And it is really important to have your will reviewed periodically.**

There are at least five things that might outdate it:

• **Changes in laws**—for instance, the recent New York law that eases the handling of trusts (often established in wills).

# PERSONAL BUSINESS (Continued)

BUSINESS WEEK
JAN. 31, 1959

- **Major changes in your assets.**
- **Changes in your family** (due to births, deaths, marriages, etc.).
- **A change in your place of residence.**
- **Changes in the health and availability of your executor and witnesses.**

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**If you have doubts about the quality of your local school system, take a look at The American High School Today, by Dr. James B. Conant (McGraw-Hill, $1.00).** And if you're a school board member, you'd better read the book before the citizens start reading it to you.

Dr. Conant, former president of Harvard, has finished the first phase of his big study of American high schools, sponsored by the Carnegie Corp. (BW—Apr.26'58,p90). The results are published this week.

**On the whole, says Conant, U. S. public schools are on the right track.** But they need to tighten up—set higher standards, put more of a premium on scholarship, push bright students into carrying heavier loads.

**Many professional educators won't like some of Conant's recommendations**—his ideas about grouping students by ability, for instance. Nevertheless, the **21 points that he sets up for judging a school will tend to become accepted standards.**

**One caution by Conant: In some of the big-city suburbs, the schools may be putting on too much competitive pressure rather than too little.** The problem in some cases, Conant says, is "to defend the children against the unreasonable academic demands of their parents."

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**Speaking of youth and careers, don't be surprised, if you have a teenage son, to learn that he may not want to follow in your footsteps.**

A survey of some 3,000 Boy Scouts shows that **only 2% of those whose fathers are business owners or managers want to become businessmen.** The score for the sons of doctors, lawyers, and engineers was 11%. **But 50% of all those interviewed said they wanted to enter the medical, legal, or engineering professions.**

**The job outlook for the college senior in your family, incidentally, is bright these days.** University placement officials report receiving more corporate inquiries now than a year ago. As for young engineers, the demand for them is so great that their starting pay differential over other graduates is as much as $100 a month in many cases.

**Product Engineering, a McGraw-Hill publication, reports that from mid-1956 to mid-1958 the median salary of all engineers in the U. S. rose 13%.** However, the median figure—only $8,750—supports the generally held belief that the starting advantage enjoyed by the young engineer levels off substantially in later years.

For an interesting look at engineering, see a book just out, Careers and Opportunities in Engineering, by Philip Pollack (Dutton, $3.50).

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**Deep blue sea dept.:** With the big national boat shows going around the country, **you may soon decide on a bigger craft—this time with full galley.** If you do, you'll want a copy of **Cooking Afloat**, the new cruising cookbook, by Kathrene Pinkerton (Barrows, $3.50).


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you'll get a better job on Wausau Bond
Artisans of Fine Papers
ASK YOUR STATIONER OR WRITE FOR SAMPLES
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Wausau Bond • Wausau Mimeo Bond • Wausau Duplicator • Wausau Ledger • Exact Bond • Exact Mimeo Bond • Exact Duplicator • Exact Ledger
Brokaw Opaque Offset • Wausau Index • Wausau Text • Everest Text • Wausau Bond Envelopes • Wausau Text Envelopes • Register Bond

# Why did Elmer

## BUSINESS ABROAD

# Italy's Struggle Over Business

Mattei, second from left, outlines one of his latest expansion plans to a group of Italian government officials.

ITALY'S INDUSTRIAL rebirth since World War II, culminating in five years of economic expansion unmarred by inflation or foreign exchange difficulties, raises new political problems. As this week's fuss over finding a new government shows, Italy's parties are under less pressure to submerge their differences than they were when the nation faced crucial problems.

Politicians see the change of government as a new chance to point up these differences in attitudes toward both Communism and free enterprise. One issue for debate is whether private industry or the big state-owned companies shall lead in future economic development.

Premier Amintore Fanfani, who resigned Monday after a seven-month regime, headed a coalition of left-center Christian Democrats and Social Democrats, a combination that favored state enterprise. If the new government reflects a shift to the right, perhaps including Liberals in the coalition, chances are that government's part in business will be restrained.

• **Nuclear Race**—The latest turn in the public vs. private competition is a race to initiate atomic electric power. Two public and one private nuclear power stations are planned. Of the three, two are to be U.S.-built—and could be part of Italy's share of the 1-million kw. capacity now projected under Western Europe's Euratom program.

The rivals in this as in other spheres of business are:

• Ente Nazionale Idrocarburi (ENI), the national oil and gas combine headed by Enrico Mattei (picture). ENI is expanding its empire (BW—Apr.13 '57,p132) to include all forms of energy; its $65-million, 200,000-kw. atomic power station under construction near Rome will be Italy's largest. Reactors will be supplied by C. A. Parsons of Great Britain.

• SENN, a subsidiary of the Italian Reconstruction Institute (IRI), the mammoth holding company that Mussolini put together during the depression of the 1930s. With part of its financing assured by the World Bank, SENN plans to break ground next summer for a power station with reactors from General Electric Co.

• SELNI, a subsidiary of Edison S. A. of Milan, which plans a $50-million, 150,000-kw. station with equipment from Westinghouse Electric Corp.

So far, private companies supply 75% of Italy's electric power. Milan Edison alone provides 25% of it. But Edison regards the atomic race as a matter of life or death for private industry. Since the war, Italy's industrial needs have outstripped conventional power sources so rapidly that, according to Italian economists, nuclear power appears to be the country's only salvation. Italy has little coal and its hydropower is already developed to the utmost.

• **Controversial ENI**—The clash with private interests involves ENI far more than IRI, even though the latter is by far the largest economic unit in the country.

IRI's companies had nearly $1.6-billion of sales last year (about the same figure as present total assets of ENI's 50 companies) and employed 250,000 workers in making ships, aircraft, Alfa-Romeo automobiles, more than 60% of Italy's steel, and the remaining 25% of Italy's electricity. In contrast, Fiat of Turin, the biggest private company, employs about 85,000.

Despite IRI's size, businessmen look at it with far less hostility than they show toward Mattei's oil and gas monopoly. For one thing, IRI originated as a means, something like the U. S. Reconstruction Finance Corp., of bailing out private companies.

Its board is well stocked with representation from private companies About half its divisions are privately operated and pay dividends. In most cases,

IRI acts as a huge industrial supplier to round out the capacity of private enterprise, as in its power system, mostly built to back up Edison's plant.

Mattei, on the other hand, is feared by businessmen for his political influence and for ENI's efficiency and aggressiveness. Milanese say Mattei plans to use the new atomic power plant to demonstrate that real progress in power production is possible only under state auspices. His aim, they say, is to monopolize all of Italy's energy sources and set himself up as Czar over them all. ENI already controls 93% of the nation's gas resources and about one-third of the oil.

• **Encroaching**—Whatever his motives—and a Rome banker says, "He's neither for nor against private enterprise, just for Mattei and ENI"—Mattei has branched out in the past few years into fields where private interests once held a monopoly.

For example, ENI built a $125-million petrochemicals plant at Ravenna, the largest in Europe, in partnership with Phillips Petroleum Co. and Union Carbide Corp. Designed to tap gas fields in the Po Valley, this plant is competing directly with Pirelli, Italy's tire and rubber giant, and Montecatini, the country's leading producer of chemicals.

In chemicals as in electric power, ENI is bumping squarely into Edison, too. Like ENI since 1952, Edison has also spread out over new fields, including mining, electronics, home appliances, and chemicals. In partnership with Monsanto Chemical Co., Edison owns Italy's second largest chemical producer. It also has three other major chemical subsidiaries, including one in partnership with Union Carbide, ENI's partner in the rival plant located at Ravenna.

This Edison subsidiary, Societa Celene, expects soon to start producing ethylene glycol and other ethylene derivatives. Another called ASCA, a joint venture with Chemstrand Corp., is turning out acrylic fiber near Venice. The newest and most promising of Edison's chemical subsidiaries is SINCAT, which is pushing construction of a petrochemicals complex in Syracuse Province in Sicily. It will draw upon Gulf Italia's Ragusa field and the Esso-Rasion refinery, biggest in Italy.

• **Political Weapons**—Rome observers predict that Edison will be the most serious obstacle in the path of ENI's further expansion. Edison is accustomed to spending big money on advertising and the molding of public opinion; it has the support of the other big companies, and they are strongly represented in the Parliament.

Italy's economy as a whole is still dominated by private enterprise, despite the growth of the two state corpora-



See Clues on page 142

tions. In fact, Italian businessmen have even more latitude in running their affairs than businessmen have in the U. S.

The three largest private companies—Fiat, Montecatini, and Edison—have a strong grip on their respective markets, and all have friends on government benches and swivel chairs. Private industrialists are reported to have a big say in three influential Italian newspapers—"La Stampa," "24 Ore," and "Giornale di Italia." ENI reputedly finances "Il Giorno."

• **Challenge Is New**—Besides Italy's three biggest companies, many others have also invested large sums in modernization and expansion in the past five years. This fact, along with the postwar conservatism in monetary policy in Italy, put a solid base under the expansion of the nation's economy. It also seemed to settle the struggle between government and private industry for control of the economy until Mattei's ENI raised the challenge once more.

Businessmen say Mattei already has most of the financial odds in his favor in the battle for leadership in atomic electricity. ENI's taxes are payable over eight years after they are incurred; private companies must pay in advance. Private business pays a 25% tax on proceeds of bond sales, while ENI pays nothing.

Moreover, ENI has virtually unlimited credit with Italy's banks, most of which are state-owned, while a private company can borrow only up to 70% of its assets. Thus, Italian industrialists complain, the government in one way or another underwrites ENI's financial operations.

Private businessmen argue that state-run corporations, both IRI and ENI, are uneconomical. IRI's government-operated divisions (about half of the total number) consistently run big deficits while those with private participation pay dividends.

• **Personal Feeling**—So far, however, no one has seriously suggested that Mattei uses ENI for personal gain. His critics instead cite his "ruthless conduct" and his ability to win support among the Italian masses on the one hand and the elite on the other. They say this following encourages him in dangerous adventures.

Mattei also displays an ability to attract top management to his staff. He periodically raids the government and private companies for talent. For example, Bruno Fua, one of the country's ablest economists, left the European Economic Commission in Geneva to become Mattei's economic adviser, and Franco Martinoli, commercial director for Olivetti, the typewriter manufacturer, has also joined ENI. ENI's American-style public relations campaigns are directed by a former official of Edison of Milan. **END**

# In Business Abroad

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## Britain's Trade in 1958 Produces Healthy Surplus

Government officials in London are busy these days totting up Britain's international transactions for 1958—the balance on merchandise exports and imports, plus net earnings from things such as shipping, insurance, banking, tourism, and oil. Although all the computations haven't been made yet, the results almost certainly will show that Britain chalked up two records last year:

• Merchandise exports during the calendar year, despite a 3½% drop from 1957, exceeded imports slightly for the first time since the Nineteenth Century. That's after deducting from the usual import figures the fees for shipping and insurance that were charged by British companies.

• London earned a surplus of nearly £400-million ($1.12-billion) on its total international transactions. That's the kind of surplus the Conservatives have been shooting for since their return to office in 1951.

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## Mexico, Guatemala Sever Ties Over Shrimp Fishing Dispute

A bitter battle over shrimp fishing off Guatemala's Pacific Coast has caused Mexico and its Central American neighbor to break off diplomatic relations.

**Guatemala contends that its territorial waters extend 12 miles and that these waters were invaded by Mexican fishing boats.** Its air force and coast guard recently fired on Mexican fishermen, reportedly killing three and injuring 15 others. About 10 Mexicans were arrested.

**The Mexican government refuses to recognize the 12-mile distance,** and is pressing Guatemala to have the dispute arbitrated at the Hague's International Court of Justice.

The rupture between the two countries marks the second time that Mexico has broken diplomatic relations during peacetime. The last occasion was with Britain over oil confiscation.

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## Japanese Oil Company Scraps Forced Retirement Policy

Maruzen Oil Co. of Japan, one of the country's two leading independent oil producers, has decided to let employees remain in service as long as they wish. The oil company is reported to be the first Japanese company to adopt such a policy.

**The purpose, Maruzen says, is to eliminate the precarious life of its employees after they retire.** At present, Japan's social security laws are considered inadequate. About 2,900 male employees are affected by the change in policy. The 600 women employees are not affected.

Under the new system, Maruzen employees will receive company retirement allowances at the age of 55, but the company will rehire them for full-time employment if they wish to remain.

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## Asarco Sells Common Stock Holdings In Cerro de Pasco Corp.

To raise money for investment in new projects, American Smelting & Refining Co. (Asarco), has sold all of its common stock holdings in Cerro de Pasco Corp. for a reported price of about $10-million.

According to company spokesmen, **the sale will have no effect on Asarco's majority ownership in Southern Peru Mining Corp.** Southern Peru, which is now developing a large new copper mine in Peru, is owned jointly by Asarco (58%), Phelps Dodge Corp. (16%), Cerro de Pasco (16%), and Newmont Mining Corp. (10%).

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## Hughes Aircraft Is Setting Up Offices in Paris, Tokyo

Hughes Aircraft Co. of Culver City, Calif., will set up offices next month in Western Europe and the Far East. Its Far East headquarters will be located in Tokyo; Paris will be the center of Western European operations.

Recently, **Hughes granted C. Itoh & Co. of Japan exclusive sales rights for its military equipment** and named the company Japanese distributor of its commercial products.

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## France Bows to U. S. Tastes, Lifts Restrictions on Bourbon

This summer, for the first time in France, U. S. tourists will get a chance to order bourbon whiskey, if they have a thirst for the American drink. This is the word from the Bourbon Institute, the newly formed trade association representative of the nations' bourbon distillers.

Up to now, bourbon was admitted to wine-and-cognac consuming France only under hard-to-get special quota permits. **But this month the de Gaulle regime gave way to U. S. tastes, lifted trade restrictions on American whiskey.** Henceforth, said a Bourbon Institute spokesman, "We're Gaulists, Vive de Gaulle!"

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## British Thread Maker Sells U. S. Offshoot

**Britain's Linen Thread Co. has sold its U. S. subsidiary,** Linen Thread Co., Inc., New York, to Indian Head Mills of New York for a reported $12-million. Severe competition and falling revenues from the subsidiary forced the British company to sell its American offshoot.

# Ford's New Fling at Financing

**● Things have changed since Ford was last in the business of auto sales credit, 26 years ago. Detroiters think some of the advantages are gone for a car maker.**

**● Today, banks dominate the field, with volume topping even the four biggest existing specialists.**

**● To make a real splash, Ford then will have to set up on a large scale and recruit a host of field men. It will have to catch up in the vital knowhow.**

By mid-February, through the curious medium of Sen. Estes Kefauver's Anti-trust & Monopoly Subcommittee, Ford Motor Co. will divulge its plans for re-entering the business of financing the sale of cars (BW–Jan.17'59,p36).

What the committee will hear will be completely orthodox. Ford has no great new idea in auto financing. Its company will be a wholly owned subsidiary as General Motors Acceptance Corp. is a wholly owned subsidiary of General Motors Corp.

No date has been set for Ford to begin its financing operations but when it does it will be on a small scale, expanding as it develops experience. The top people for the finance company will be drawn from Ford Motor Co., but for the bulk of the employees Ford hopes to draw from existing small finance companies, because knowhow is all-important in auto finance and this is the quickest way to acquire it.

Ford has two ends in mind in re-entering auto financing (which it abandoned in 1933). The first is the obvious one: to make money. The second is important, too, but difficult to define precisely. It is the opinion in Detroit that Ford feels that most finance companies (with GMAC an exception) are putting too much stress on dealers selling insurance as well as installment contracts.

If a dealer had a simple finance contract to sell and was concerned only with the insurance necessary to protect the finance company's loan, Ford apparently feels, the dealer would be better able to concentrate on his major role: that of selling automobiles. If it works out that way, then Ford would gain some indirect sales benefits from having its own finance company.

But the major objective still remains profit: Auto finance companies, at least the big ones, are very profitable; more than two-thirds of all new car sales are on time.

• **GM's Experience**—For example, General Motors Acceptance Corp.—largest outfit in the field, and wholly owned by GM—has had a return on "stockholders' average investment" of 17% to 21% over the past five years, according to hearings on "captive" finance companies held last year in Washington. GMAC reports that, for the first nine months of 1958, it earned $40.2-million, up $9-million from the previous year despite only a slight increase in receivables.

What's more, GMAC's insurance company subsidiary is showing increased earnings. A big-scale auto financing operation has to have its own insurance company. This can be just as profitable as the lending agency.

There's one other factor in the profitability of auto finance companies that Ford couldn't help but know. The maturity term on car installment buying has been steadily increasing—about 50% of retail paper now is for 36 months. And tables worked out by the Kefauver committee staff show that the finance charge increases at a faster rate than the lengthened time of repayment.

• **Effect on Sales**—So the way Detroit sees it, Ford's move has a double spur: to get into the lucrative financing business, and to indirectly help sales. But many experts in Detroit fail to see how Ford could increase its car sales by having its own finance company.

Today, there are three other major finance companies in addition to GMAC—C.I.T., Commercial Credit Co. and Associates Investment Co.—and many smaller ones. And banks do more retail auto financing than the Big Four of the auto finance business.

For this reason, Ford's entry into the field seems to face tough going. What inducements can Ford offer dealers? How can it offer anything out of the ordinary without running afoul of Washington? Finally, where is it going to get the knowhow to operate a big-time auto finance company?

You can see the enormity of Ford's task in one simple fact: GMAC finances only about 28% of retail sales of new cars by GM's dealers and only 39% of time sales, despite the fact that it is a wholly owned subsidiary, has been in the business 40 years, and originated the basic plan by which practically all retail auto financing is done.

## I. The Way It Pays

Here is how the whole business works: When a dealer orders new cars from the factory, his finance company (or bank) will lend him most—if not all—of the money to pay for the cars. The finance company keeps title to the car. This is the "floor planning" end of the business. It ties up a lot of money for finance outfits, and can be a big nuisance, but it's the key to getting dealers to give them retail financing—the really profitable side of the business. So it's a service that all finance companies want to offer.

When one of these cars is sold, the customer, of course, can pay for it anyway he chooses: He can borrow from a credit union, a bank, his brother-in-law, or an auto financing company. The dealer, of course, tries to push the last choice. A new car sale through a finance company is set up somewhat like this:

| | |
|---|---|
| *Retail price* | *$3,000* |
| *Downpayment (cash or trade-in)* | *1,000* |
| *Balance due* | *2,000* |
| *Insurance premiums* | *100* |
| *Principal balance* | *2,100* |
| *Finance charge for 36 months (6% a year for 3 years)* | *378* |
| *Time payment balance* | *2,478* |
| *Monthly payment* | *68.83* |

• **Dealer's Cut**—What catches the dealer's eye is his commission on both the financing and insurance. Over-all, this generally amounts to about 1% a year on the $2,100, or $63 for the full term. It sounds small until you remember that many new cars are sold at a net profit of $100 or less. Besides, there's nothing to prevent a dealer from charging more than 6%; some do, and they get an immediate rebate from the finance company.

Most of the financing commission is set aside for a "finance reserve." It is established to cover losses when a car must be repossessed and turned back to the dealer for resale; the dealer reimburses the finance company on bad debts out of this reserve. This reserve, a credit man points out, not only protects the finance company but also enables it to woo the dealer in the fierce struggle for retail finance business.

• **Finance Company's Cut**—By its participation, the finance company gets what amounts, in effect, to nearly 12%


RYDER TRUCK RENTAL

annually in interest (sometimes higher)—plus, more often than not, the insurance business on the new car. (The buyer is not compelled to insure through the finance company's subsidiary—but few buyers realize this.)

It's true that insurance losses on autos have been mounting, but some Detroit people estimate that up to 50% of the premium is profit, principally because sales expense is so low.

To get the retail financing business, however, the finance companies have to compete fiercely with each other and with the banks. In the face of this competition, says one GM executive, there's no longer any particular sales advantage in a "captive" finance company. But there certainly used to be.

## II. Early Maneuvering

Henry Ford organized Universal Credit Corp. in 1929, allegedly to bring down the price of borrowing. Ford's Model A was new then, and he had something to push, but Commercial Credit Co., GMAC, and Commercial Investment Trust already had a solid hold on the finance market.

In 1933, Ford sold Universal to C.I.T. (at a $30-million profit), saying it had accomplished its purpose. Ford, however, retained an agreement with Universal-C.I.T. under which it was the Ford Co.'s preferred financing outfit.

• **6% Financing**—GMAC's "6% plan" in 1935 set financing on a new stage. It enabled the customer to figure out for himself what the finance charges should be. This not only tempted prospects into GM showrooms but also put a damper on higher charges by other companies. All the while, the three big auto companies, according to a Federal Trade Commission investigation, put "pressure" on their dealers to use only the factory-preferred or controlled finance company.

Out of this grew the 1938 indictments of GM, Ford, and Chrysler and their associated finance companies for restraint of trade. Ford and Chrysler signed consent decrees, agreeing not to participate in auto financing. GM chose to fight. It lost the criminal suit, pertaining to putting pressure on dealers, and was fined $25,000. In a later action, which dragged on until the late 1940s, GM won the civil suit that sought to compel it to divest itself of GMAC.

Ford then went into court and obtained a release from its consent decree. So now it is prepared once again to go into the business.

## III. Ford's New Problems

Undoubtedly, Ford can raise even the enormous amounts of capital required for an auto finance company. But where is it going to get the know-how?

The big personnel asset of a major auto finance concern is on the local level. According to one company, the local finance representative generally has a half-hour or so to decide whether he has a good risk on his hands. True, the risk is backed by the car, but experience has shown that either the finance company or the dealer can lose $300 or more on selling a repossessed car. Local managers also have to keep an eye on dealers, their sales, and inventories.

GMAC, C.I.T., and CCC, alone, have about 1,300 local offices in the U.S., GMAC has more than 300. Ford will have to come near matching that figure if it wants a big piece of the pie.

Then, there's the insurance business. Ford will have to get into this field, too, if it hopes to go first-class in auto financing.

One way Ford could ease its pains would be to recruit people from existing small finance companies. That would immediately give Ford some of the knowhow that the professionals say is so essential.

• **Will They Buy?**—Whether Ford's new finance company will entice dealers away from their present financing is another important question. According to dealers buttonholed around the nation by BUSINESS WEEK reporters, the answer depends on the new company's rate structure—something that may not be known until Kefauver's committee starts quizzing Ford.

Many Ford dealers have close ties with their present financing companies. Some say they won't budge for anything. But most concede that if Ford comes up with a good set of rates, they'll switch. (GMAC "floor plan" rates often are ½ of 1% better than other finance companies.)

"If it's profitable," says a Philadelphia Mercury-Edsel-Lincoln dealer, "I'd surely change." He likes the idea of working with the parent organization, expects it will give him better service, particularly in repossessions.

• **More Competition**—The general feeling is that Ford will add greatly to competition in the big cities, not smother competition. A minority of dealers feels that the smaller finance companies might be squeezed out by Ford's move, but most say these will keep on doing their usual marginal business.

In many smaller cities, Ford's entry into the field could help dealers immensely. Financing outlets in some of these areas are limited, and "if Ford can come up with good 'floor plan' rates," says one Midwest automobile dealer, "they'll get a big chunk of business." END


**Main business of currency exchanges in Chicago is check-cashing, but they offer a catchall of other services . . .**

**. . . even in such dignified quarters of the city as the Loop (above), where office workers line up. Meanwhile . . .**

**. . . blue-collar workers find armored check-cashing cars—competitor of the exchanges—right at plant gates.**

# Why

**An unusual business called currency exchanges is thriving because of Chicago's shortage of banks—but that may end soon.**

When a white- or blue-collar worker in Chicago wants to cash his weekly paycheck, it's an even bet he'll head for a nearby currency exchange (pictures).

If so, he'll be patronizing an institution that exists legally only in four states and flourishes chiefly in Chicago, the city that has the climate most conducive to its well-being.

In some states—including some in which they live on the fringes of legality—currency exchanges are an anachronism, hanging on to the toehold they grabbed on banking's check-cashing function during the depression years when many banks closed. But they've sprung up like weeds in Chicago because it—the second biggest money market in the nation—is the most under-banked major city in the country.

• **Bank Shortage**—Illinois—like nine other states—has a blanket ban on branch banking. There are only six major banks in the downtown (Loop) financial district, only 78 in the whole city. By contrast, Philadelphia has roughly 173 banking units; Detroit, 146; Los Angeles, 199, and New York, 746.

The Windy City has one banking office for about every 50,000 persons; New York has one for every 10,000 New Yorkers; most cities of stature have one office for every 8,000 persons.

In Chicago, savings and loan associations outnumber banks by two to one, finance companies by three to one, and currency exchanges by slightly more than seven to one. The Chicago Currency Exchange Assn. estimates that there are about 800 exchanges throughout the country; 688 of these are registered in Illinois, about 670 in the Chicago metropolitan area alone.

• **Varied Services**—Currency exchanges, as the name implies, are essentially check-cashing services—at an average fee of 35¢ a check. They also write money orders—at a monthly rate of about $52-million in Chicago—and at smaller fees provide such sundry services as notarizing, forwarding traffic fines, accepting payment on utility bills, and filling out various license applications. They don't accept deposits. But they are big customers of Chicago's banks; annual turnover of their demand deposits amounts to about $1.5-billion.

• **Depression-Born**—Few of Chicago's currency exchanges are more than 25 years old. They began to crop up in

# Stores and Trucks Cash Checks

1931, when many banks were closing their doors. The 1933 Bank Holiday gave them further impetus.

At the outset, many exchanges operated as loan companies and banks, accepting and dispensing money, holding demand deposits. Some were honest; some were not.

Finally, in 1943, after years of agitation for reform, a bill was pushed through the Illinois legislature circumscribing exchange activities. The bill was backed by many exchange operators. At the time, there were some 400 exchanges in the state. Many of the downstate exchanges consolidated, and some obtained regular bank charters. The others hung on and, as Chicago's banking needs grew without relief, new exchanges came to life.

## I. Organizing an Exchange

To set up an exchange, an operator needs essentially three things: a clean bill of business health, $3,000 in capital, and a state permit. The latter is often the toughest to get. State officials think existing currency exchanges have saturated the field in Chicago, and they frown on new entries.

About 75% of the exchanges are independent, Mom-and-Pop-type operations. The rest are chain operations.

• **Nature of the Business**—The success of an exchange rests on the volume of business it can do, since the average item brings in only 20¢. To make a decent profit, most operators feel they must handle 6,000 items per month, or some 200 customers a day. An independent operator in an average neighborhood can clear $600 a month. In a chain, where salary expenses are higher, the net is often less.

Check-cashing gives an exchange operator about 55% of his income. Issuance of their own money orders, mostly to pay bills, accounts for about 30%. The balance comes from specialized services, such as licenses, helping out on income tax reports, and photostat work.

There are no studies on the type of people who frequent exchanges, but they run the gamut. The bread and butter kind, though, is the factory worker or clerk who has weekly or monthly bills and finds no bank convenient; he might not need a checking account, anyway.

This is reflected in the size of checks that pass through exchange windows. The average check cashed, according to most operators, is $65. One exchange, which broke down its operations finer, reports that 48% of the checks it cashed were $50 or less, 75% were under $85, and 82% under $100.

• **Keeping It Honest**—Even though most customers are long-time patrons, the exchanges have set up a number of safeguards against being bilked. Most exchanges require a bank's O.K. by telephone on any checks above $200—often the limit they will handle—unless they are issued by one of Chicago's big companies.

The Exchange Assn. also has set up regular procedures for members to follow in checking identification. It has a special "fraud service," which passes on to exchange operators information on bogus checks or money.

"There's one other way to avoid trouble," says one operator. "If a strange customer walks in, send him away."

• **Financing**—To cover their day-to-day operations, currency exchanges use their own funds. From time to time, the exchanges also can overdraw at their banks, at 4% interest. Since the exchanges don't often borrow, and since they can't give the banks enough in deposits to compensate them for the mass of services they render, the banks' service charges are steep.

For example, a Chicago bank normally charges 1¼¢ for each money order or check drawn on itself that is deposited by a currency exchange, plus a 4¢ additional charge for each deposit as a whole. Exchanges often make three of these a day. Banks also charge exchanges a ¾¢ premium for each roll of change purchased, and they are smacked with a 12½¢ charge per $1,000 of currency withdrawn and a 10¢ per $1,000 charge for currency returned to banks. In addition to all of this, exchanges last year were hit with a 20% surcharge on the gross fees paid to the banks.

But these rates are lower than they were in the past. In 1947, a group of exchanges banded together to buy 85% of the Lincoln National Bank, and brought about lower rates and uniform services. Now some 200 currency exchanges use its facilities, but Lincoln National officials point out that their rates are approximately the same as all other banks.

## II. Running Into Competition

Whatever their health now, the currency exchanges are basically static institutions, with little room for further growth.

Since 1952, when their number climbed to more than 600, fewer than 70 new exchanges have opened in Chicago.

"The cream is pretty much off the top," admits David Maslowsky, the largest chain operator, with 28 exchanges. "Most of the good locations are gone, and the state won't permit more than a certain number in any given population area. So about the only way to expand is to improve your services or buy out some one else."

• **New Rivals**—Their most serious new competition comes from supermarkets and department stores, which are stepping up their check-cashing activities. And they still have stiff competition from mobile units—armored cars that park outside factories, cashing workers' checks. The units are cutting into exchange business, particularly in industrial sections, even though they are barred from stationing themselves within four blocks of an established currency exchange.

These mobile units (which also date back to 1931) are not considered exchanges although they have to abide by the same general rules. Since they offer no services besides check-cashing on a mass basis, their overhead is low; they can charge about 15¢ less than currency exchanges for check-cashing service.

• **Branch Banking**—Few, if any, exchange operators say publicly they would be seriously hurt if Illinois should pass a bill allowing branch banking. For the first time in 36 years, such a bill is now pending in the legislature. If it passes the legislature, it has to be submitted to referendum.

The bankers disagree. They feel if the bill passes, it would mean the end of a slew of exchanges. The measure would permit branch banking in Chicago and a 15-mile zone circling the city and including the fastest-growing industrial and suburban areas—the richest territory for financial institutions in Illinois.

The bill has only a fair chance to pass. The state's two biggest banks—First National Bank of Chicago and the Continental Illinois National Bank & Trust Co.—support it. They say branch banking is a must if Chicago is to meet competition from other cities.

However, the powerful Illinois Bankers Assn., which has 932 members, the majority small banks, opposes it. It fears branch banking in Chicago as a possible wedge for statewide chain systems.

Even if branch banking goes through, few exchange operators doubt whether they'll be out of business. Jerome Levitt, president of the Chicago Currency Exchange Assn., counters: "Even if branch banking were allowed, bankers wouldn't pick the neighborhoods we serve." END

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# More Merging

**Two more New York City banks—Manufacturers Trust and Bankers Trust—want to join the merger trend.**

The tooth-and-nail competitive struggle between New York City's banks is getting hotter.

Last week, Manufacturers Trust Co. and Bankers Trust Co., the fourth and seventh largest in the nation respectively, confirmed that they were holding merger talks. Their move follows swiftly on the news that J. P. Morgan & Co. and Guaranty Trust Co. plan to consolidate into a giant new "wholesale" bank (BW—Dec.20'58,p23).

• **Retail Giant**—If the Manufacturers-Bankers merger goes through the end product would be a "retail" giant, the fourth largest bank in the nation, with deposits of more than $6-billion, capital funds of $492-million, and perhaps 150 branches—far and away the largest number for any New York bank.

The latest merger was triggered by the Morgan-Guaranty move, but it is not aimed primarily at combatting that proposed institution. Morgan-Guaranty's business would be exclusively wholesale, while Manufacturers-Bankers would be heavily retail. The real reason for the latest merger is the fact that New York banks have steadily been losing their share of the nation's bank deposits to out-of-town banks, and, in turn, they have been fighting harder among themselves for the dwindling business that remains. One way to gain competitive strength is to merge.

• **Inducements**—There are other obvious advantages in the merger, although it's generally conceded that the wedding is not nearly so "natural" as the Morgan-Guaranty consolidation, in which a bank strong on management wants to wed a bank strong on capital. The two banks complement each other nicely in capital and services.

Manufacturers, with a relatively small trust department, will benefit from Bankers' trust operation, one of the biggest and best in the field. Bankers, in turn, will get a big push in its long-term program to move into the retail field, because Manufacturers has 114 branches. Both of the banks will benefit from increased capital funds, which will allow them to compete more effectively.

The big shadow over the merger proposals is the question of what the regulatory authorities will do. As yet there have been no official pronouncements from either federal or state agencies. END

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# Inflation in a Different Perspective

Though prices have been stable since last spring, the country buzzes with worried talk about inflation and its dangers for the American economy. But we urgently need some perspective on this inflation problem. Just how much inflation have we been suffering—compared to other nations, or to earlier periods in our own history?

You can find some enlightenment on these questions in the President's Economic Report (BW—Jan.24'59,p25), in which a special appendix on prices notes: "In fact, the average change in United States prices between 1953 and 1957 was somewhat less than the change in many Western European countries, though nearly as much as in Germany and Italy." Nearly as much as in Germany, mind you, —rock-solid, hard-money Germany that has often been held up as the model of economic deportment in the postwar years. The Economic Report then presents a statistical table that shows that all items in the U. S. consumer price index rose 5% from 1953 to 1957, or about 1.2% per annum, while German consumer prices in the same period increased about 6%. Meanwhile, Italian consumer prices rose 10%, Norwegian prices rose 12%, British prices rose 16%—or more than treble our own.

But perhaps this period, 1953-57, was a fluke, because it followed Korea. The price drop after Korea certainly helped some. But note these calculations of Alvin Hansen, emeritus professor of political economy at Harvard: During the decade just past, wholesale prices increased at a compound rate of 1¼% per year, consumer prices at a rate of 1¾% per year. In contrast, Hansen notes, in the 16 years of peacetime prosperity from 1897 to 1913, prices rose at a much faster compound rate per annum—2½%. And during the six decades from 1897 to 1957, the per annum rate of increase of prices was 2⅓%. There was a big jump when we lifted price controls after World War II and let the suppressed inflation work itself out. Since then, we have done better than the average of the years since 1897.

## How to Judge the Schools

Through all the clamor about what is and isn't wrong with U. S. education, one quietly authoritative voice managed to make itself heard this week. Dr. James B. Conant, former president of Harvard, has just finished the first stage of a careful study of the American public high school. His findings are published in a short book, The American High School Today (page 125).

Conant's may not be the divinely inspired, still, small voice of calm, but it is a voice that makes a great deal of sense. As an educator who is used to excellence, he is as much concerned with identifying what is good in the U.S. schools as in decrying what is bad. Basically, he thinks, American education is on the right track. It needs to toughen up, to demand more of its good students, to put more of a premium on scholarship. It does not need to abandon its fundamental principles and make itself into a carbon copy of the British system, or the Russian.

We hope that the standards that Conant sets up for judging the quality of education offered by a particular school will get wide recognition. And we also hope that the cool, reasonable tone of his study will set a standard for all future discussion of U. S. schools.

## The New Giant

In the burgeoning growth of private pension funds (page 88) we have almost a textbook example of how a major financial institution can grow up in response to social needs, in this case workers' desire for security in old age.

This growth is also a signpost showing that the United States has reached the point where it is rich enough to provide really adequate retirement pay for many of its older workers.

Today, pension funds have grown into a financial giant; their assets already total $33-billion, a figure that is expected to reach $77-billion by 1965.

These pension funds already wield sizable influence on the economy, especially the stock market and other capital markets. Yet, their growth has been so fast and hodgepodge in form that management, the lawmakers, and the courts are just now facing up to the many problems they pose.

There are many questions to be raised about the impact of pension fund buying on stock prices and the influence on traditional savings and investment patterns. There are also questions to be raised about the need for regulations to ensure that pension funds are adequately safeguarded and properly audited. For while most major financial institutions—like banks and insurance companies—live in a well-regulated goldfish bowl, pension funds, for the most part, do not.

This situation is bound to change. But it is an area where regulation and new laws should not come until a great deal of study and research is done. It's only after this sort of study and research that we can draw up the kind of reasonable and workable regulations that will be needed.

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